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# THIRD ANNUAL REPORT OF THE TRADE PROMOTION COORDINATING COMMITTEE—1995

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Y 4. B 22/3: S. HRG. 104-305

Third Annual Report of the Trade Pr... ING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE

OF THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

THE THIRD ANNUAL REPORT ON SECTION 201 OF THE EXPORT PRO-  
MOTION ENHANCEMENT ACT OF 1992, TO COORDINATE THE EXPORT  
PROMOTION AND FINANCING ACTIVITIES OF THE FEDERAL GOVERN-  
MENT AND TO DEVELOP A GOVERNMENTWIDE STRATEGIC PLAN FOR  
CARRYING OUT FEDERAL EXPORT PROMOTION AND FINANCING PRO-  
GRAMS

OCTOBER 12, 1995

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



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THURSDAY, OCTOBER 12, 1995

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
SUBCOMMITTEE ON INTERNATIONAL FINANCE,  
*Washington, DC.*

The Subcommittee met at 10:20 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Christopher S. Bond (Chairman of the Subcommittee).

## OPENING STATEMENT OF SENATOR ALFONSE M. D'AMATO

The CHAIRMAN. Senator Bond will be with us soon but in the interest of time we will convene the hearing so that we can take opening statements.

I'm going to submit my full statement to be included in the record as if read in its entirety.

I want to commend Senator Bond for his leadership in this area. You are to be both commended, for the most part, and prodded on the second half as it relates to what can we do.

Given the report that you have presented to us today, some of those materials should be kept as you have decided, in a classified manner.

It is an outrage that foreign countries participate in activities that border on illegality and, in some cases, condone illegal conduct. They actively participate in it. Certainly they are aware of it and do nothing and, in many cases, encourage it.

The fact that a hundred contracts have been lost in the past several years due to these types of activities that are undertaken by foreign competitors and countries is absolutely unconscionable.

The loss to us, the loss to the process, the creation of the question, well, if others are doing it, why shouldn't we and why should American companies be penalized?

We certainly don't want to return to those days of absolute corruption. We understand that there are certain pressures that are always going to be brought to bear. We would like to think that our American companies in this country will not be disadvantaged, as we have obviously been over the years.

Secretary Brown, I want to commend you for your leadership in this area and urge you to continue. Certainly, it's always a pleasure to see my good friend, President Brody. Mr. Lader, I want to thank you for an effort that you undertook on behalf of one of the



best run Small Business Administration offices in the country, in Elmira, New York, a small, little community that has a very real impact.

Before I turn the gavel over to the Senator Bond, who has appeared, I want to thank him for his leadership, not only here, but in terms of the great sensitivity and the fact that no problem is too small or too large for Kit Bond when it comes to providing economic opportunities for people, so that people can compete and do it fairly and freely, whether it's abroad, whether it's encouraging foreign countries to look at us as a resource and to understand that they should keep their doors open. Or whether it's in the small communities of upstate New York. He has demonstrated a great capacity to be concerned. I want to thank him publicly. It's been a great pleasure to work with the Senator.

#### **OPENING COMMENTS OF SENATOR CHRISTOPHER S. BOND**

Senator BOND. Thank you very much, Chairman D'Amato. I appreciate your kind words.

Let me turn now to my Ranking Member, Senator Boxer.

#### **OPENING STATEMENTS OF SENATOR BARBARA BOXER**

Senator BOXER. Thank you so very much. I want to add my thanks to you, Mr. Chairman, for your excellent leadership of this Subcommittee.

I want to first say that having read over the unclassified summary of the Foreign Competitive Practices Report, I really want to thank you, Secretary Brown, and those of your staff who put this together.

We have fights, it seems, every 2 months on the floor of the Senate over export promotion. Sometimes it's in the marketing promotion area of our agricultural products. But clearly, you have given me, at least, the tools that I need to fight even harder for export promotion.

When you tell us that we spend so little compared to our competitors and then you give us the tools we need, which are the facts that we need here—in 1994, the UK spent 25 cents in export promotion programs for every thousand dollars of GDP. France spent more than 17 cents, Japan more than 12 cents, and we spent 3 cents.

So every time we have to go toe to toe—and by the way, it's a real bipartisan issue. I find myself working with my fellow Republicans for these programs and some of the Republicans will join the Democrats against these programs. I want to thank you for putting this into the dollars and cents that we need to make our case.

I would ask unanimous consent that my full statement be placed in the record, Mr. Chairman.

Senator BOND. Without objection.

Senator BOXER. I'm just going to summarize from it.

I am very pleased to welcome all of you, the three of you, here this morning. I'm very proud of the work that you are doing.

TPCC's mandate, according to the Export Enhancement Act of 1992, is to coordinate the export promotion and financing activities of the Federal Government and to develop a strategic plan which carries out that mandate. This is something we must do. Our com-



petitors do it very well. Frankly, in the past, I didn't think we did it too well. And I am so proud today to say that I think we are beginning to get it and we are beginning to perform and it's beginning to show, certainly clearly in my State of California. There are 25,000 exporting firms in my home State, 25,000 exporting firms.

In 1994, these California businesses produced approximately \$80 billion in sales and supported a million jobs. A million jobs. That means a million families who are actually living because of exports.

As we move forward into the 21st century and U.S. businesses are increasingly forced to compete in the global marketplace, it's vitally important that these businesses have the benefit of a coherent strategy for export promotion.

I am interested to hear the specific progress which has been made since the TPCC presented its second annual report last year. I'm also interested to hear what steps some of the individual member agencies have undertaken to promote exports.

The global future is now. We used to talk about it—oh, we are going to be a global marketplace. We are a global marketplace. Our strategy and our advocacy efforts will play an integral role in determining the success of our business in that global environment.

Secretary Brown, I want to thank you for your leadership in this area. I've talked to you about a number of things. I have seen your dedication, your advocacy for this country and for our businesses, and the pride that you take when you do enter into discussions and conversations with other leaders in other nations because you believe so much in our business and the product that we have to export, and you believe so strongly that business needs to have a seat at the table. You have provided that seat. God forbid if we lose it. As far as I am concerned, it would be insane of us. It would be unilateral economic disarmament in a global marketplace.

You have shown us that with common sense, dedication, spirit, and energy you can make a difference on behalf of our Nation.

So, clearly, I'm on the side of making sure that we continue what you have begun. Anything that I can do to work in a bipartisan fashion to make that happen, you can count on that.

I very much look forward to hearing from all of you.

Thank you very much, Mr. Chairman.

Senator BOND. Thank you, Senator Boxer.

Senator Faircloth.

#### OPENING COMMENTS OF SENATOR LAUCH FAIRCLOTH

Senator FAIRCLOTH. I have a few questions but I will get to those later.

I do want to thank Ken Brody for being here. As you know, I strongly support the Tied Aid bill that we marked up a few weeks ago, which will go a long way to helping foreign countries compete abroad. I just have a question or two when we get to those.

Senator BOND. Thank you very much, Senator Faircloth.

I might say for the record the Subcommittee is meeting this morning to receive the National Export Strategy Report from the Trade Promotion Coordinating Committee.

We are very pleased to welcome today the distinguished panel of witnesses, including Secretary Brown, President Brody, and SBA Administrator Lader, who all serve on the TPCC.

In 1992, this Subcommittee developed and saw enacted legislation which created the TPCC, and the requirement of the presentation of this annual export strategy.

The bill, the Export Enhancement Act of 1992, was driven by the concern of several Committee Members—former Chairman Riegle, Senator Sarbanes, Chairman D'Amato and I was pleased to be in that group. We are concerned about the need for coordinated and aggressive Federal support for export promotion.

This is the third report we have received, and I must say that I am very pleased with what's in it. The Administration has put a significant amount of effort and resources into the TPCC process and into export promotion in general.

As I've said on many occasions, Secretary Brown deserves to be commended for his efforts to energize the TPCC process and to be a very forceful and effective advocate for American exports.

Mr. Brody has done much to make the Ex-Im Bank a player in international finance. We thank you for your efforts as well.

And I have the opportunity when I wear another hat to work with Mr. Lader in the small business area. We are very pleased with the work going on there.

I have actually read the report that you're submitting today. I would like everybody to know that because it's rather long.

[Laughter.]

I'm pleased to see that we are continuing to make progress toward the goal of improving Federal services to exports.

Having said that, we continue to face some major challenges and obstacles to success in export promotion. I will mention just two that are of the greatest concern.

As those of you who were excluded probably are only too well aware, Secretary Brown has just finished providing the Subcommittee the details of a classified report on the unfair trading practices of other nations. His report was truly outstanding and alarming because it detailed specific instances in which American firms lost deals to their foreign competitors as a result of practices that are considered either illegal or unethical in this country.

To my colleagues who had other commitments and could not be here, I would urge you to go to S. 407 and read the classified report on the outrageous activities that have gone on in foreign countries by foreign firms and even by foreign governments. If you need any incentive to get your juices flowing to understand why we need an aggressive export strategy, that ought to do the job.

Anybody who has not developed enthusiasm for what the U.S. Government ought to be doing can certainly get that enthusiasm by reading that report. I would recommend that not only to Members of this Subcommittee, but I will try to get the rest of our colleagues in the Senate at least to give it a brief review.

Now, we in the United States cannot and should not play in the game of bribes and illegal activities. But, at the same point, we don't want to allow U.S. firms to be disadvantaged when somebody else does.

I think I speak for all my colleagues in saying that we are going to monitor very closely these trading practices and we are going to take whatever action we can, and we look forward to supporting you, Mr. Secretary, in these efforts.

Now, the second threat to American exporters comes from, unfortunately, a source much closer to home.

I believe it was Pogo who once said that we have met the enemy and he is us.

Several Members of Congress have taken up the call to eliminate the Commerce Department and either eliminate, scale back, or reorganize our Trade Promotion and Finance Agencies to make them less effective.

I have been leading the fight against these proposals because it is absolutely clear to me that, if enacted, they would cost good American jobs.

Fortunately, we have had some success. Last month, we were successful in eliminating proposed severe cuts in our trade promotion programs and although proposals to eliminate the Commerce Department continue to move forward, they no longer call for total eliminate of the critical trade agencies.

That's a battle we are going to have to continue to fight. I remain hopeful that, given enough information, our colleagues in the Congress will come to understand the critical role played by these agencies and that we can get a majority to decide to ensure their survival.

I look forward to hearing from our witnesses this morning and to talking with you further about this important subject.

Let me also note that the Commerce Department is releasing today their report on the Big Emerging Markets. It's a big emerging report, too, I can tell you.

[Laughter.]

I haven't read it yet.

This book has useful information, and I do know that it has a scintillating and compelling quote at the bottom of the back page, which I would recommend to anybody.

[Laughter.]

But the B-E-M-S conference, or BEMS conference, which was held this summer, is another part of the initiative that's been spearheaded by Jeff Garten and David Rothkopf at the Commerce Department. Their efforts to get American companies to focus on these ten key growth markets is precisely the kind of role that we envision for the TPCC.

Again, Mr. Secretary, I commend you and the others for this effort. I urge my colleagues to get the information in the hands of their exporters so they can put it to use as they try to gain a foothold in these critical markets.

With that, let me turn to Secretary Brown.

Excuse me. Senator Murray.

Senator MURRAY. I will pass on an opening statement for now. Thank you.

Senator BOND. All right. Mr. Secretary.

#### **OPENING STATEMENT OF RONALD H. BROWN, SECRETARY U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC**

Secretary BROWN. Thank you very much, Mr. Chairman.

First, let me thank you for your very kind remarks about the leadership we have tried to provide, about the work that we have attempted to do. And more than that, to thank you for your ex-



traordinary support on not only these issues of export promotion generally, but on how we make America a more productive and more competitive country, how we create economic growth and how we create high-wage, high-quality jobs for the American people.

You and I share that deep commitment.

Thank you very much, Senator Boxer, for your very kind remarks about the work that we have done together in assuring America's economic future. I appreciate that very much.

I'm very pleased to have the opportunity to appear before the Subcommittee this morning to present to the Congress the third annual report of our Trade Promotion Coordinating Committee.

I would like to first express my thanks and gratitude to Ken Brody, my colleague and friend. We work arm in arm on these issues of assuring America's competitiveness, assuring that we not only compete in the global marketplace, but that we win in the global marketplace.

Next, I would like to express my thanks to Phil Lader, the administrator of the Small Business Administration. We also work very closely together. We have demonstrated our cooperation in our export promotion centers, where we have brought Commerce, Ex-Im Bank, and SBA together to provide virtual one-stop shopping for small- and medium-sized businesses.

I would also like to thank Ruth Harkin of the Overseas Private Investment Corporation, and Joe Grandmaison of the Trade and Development Agency, who, through their genuine commitment to the TPCC interagency process, have been instrumental to the success of our National Export Strategy.

You have indicated, Mr. Chairman, that I have presented to the Subcommittee and we have released today a copy of our report, and I will be referring to the report during my testimony.

I would like to just briefly mention the upcoming 1995 competitiveness report, which is an important report that we prepare at the Department at Commerce as well, and which will be delivered to you and your colleagues shortly. In our 1995 report, Mr. Chairman, we will emphasize the success of the Department's trade and technology programs. I fervently believe, as you know, that the two go together.

I think it's urgent for America's economic future that we understand the confluence of trade and technology. It is part of our overall competitiveness strategy. The Commerce Department has been particularly active in making the most of the synergy between trade and technology, actively advocating economic policies that support growth and innovation and, most importantly, job creation.

Today, Mr. Chairman, I would like to focus my remarks on the trade aspects of the Department's work and in particular, our export advocacy strategy.

Last year, when I delivered our second annual report to Congress, we set an ambitious objective. That is, to expand exports to over \$1.2 trillion by the year 2000. Today, I can report that we are well on the road to achieving that goal.

Through the first 6 months of 1995, exports of goods and services are running at about \$765 billion annualized, and are up in our key markets, including Japan, China, East Asia, Canada, South

and Central America, and the European Union virtually all over the world.

At this rate, we estimate by the year 2000, fully 16 million American jobs will be supported by exports. Our strong export performance has resulted in more than 2 million new export-related jobs since January 1993.

In 1994, exports accounted for a third of the growth in American GDP and supported a record 11 million jobs. And that, of course, Mr. Chairman, as you know, is the key. What is the practical result of this? This is not about philosophy or ideology. This is about how we are relentlessly pragmatic in promoting growth and promoting jobs.

We know that there is a very simple and clear equation. That is American exports equal American jobs. There's no question about that. For every billion-dollar increase in exports, we create or support somewhere between 17,000 and 20,000 jobs for the American people. So there's a real bottom line impact to these activities.

As Chairman of the Interagency Trade Promotion Coordinating Committee, I can report to you today that the National Export Strategy is not only working. It is thriving.

I would like to share with you the progress we have made implementing the National Export Strategy over the last year and the new strategies we are developing to help ensure that American firms can continue to compete and win overseas and create better jobs here at home.

Before I describe the efforts of the TPCC and highlight our National Export Strategy, I would like to put those efforts into some kind of context because I think that is important as the Congress considers a number of the issues that are before it in the weeks and months ahead.

As you know, just moments ago, as you mentioned in your opening remarks, Mr. Chairman, I completed a closed briefing on a classified study that we have recently completed detailing the practices foreign governments are using to win projects around the world. This unprecedented study details the lengths our competitors will go in their efforts to help their companies claim market share. They, too, have clearly gotten the message—that exports equal jobs—and they are doing everything in their power to make sure that those jobs are won by their citizens.

As our study reveals, until the advent of our National Export Strategy, we were hopelessly behind the curve in this competition. In what might be called legitimate areas of export promotion, such as financing and high-level advocacy, our competitors have devoted far more resources than we have to the fray.

Virtually every other major competitor spends significantly more as a percentage of GDP than we do on export promotion and financing. Let me simply refer to the charts on page 70 and 71 of our report, which lay out those disparities.

Virtually all have placed more people in the field to help their companies than we have, even though we have a much larger market here at home and many more people in our population. But many also engage in practices that we might call questionable or, more accurately, unacceptable practices—intimidation, bribery, improper linkages between policies and business deals.

We are not in that game, nor should we be. But in many parts of the world, such activities are the norm. Our firms are trying to carve out market share with one arm tied behind their back.

Of 200 projects tracked in the past 8 years, we can specifically identify 45 percent of those projects that American companies have apparently lost due to the intervention of other governments. These projects total \$25 billion and would have supported perhaps 500,000 American jobs.

Of 100 cases of bribery we have identified since 1994 alone, deals worth \$45 billion, bribers have won 80 percent of the time. These deals are just the tip of the iceberg. We don't have the resources to track the majority of the deals. So what we are talking about is tens of billions of dollars and hundreds of thousands of lost American jobs.

I encourage all of you to do as Senator Bond has done, and that is to read the report. It is edifying and alarming at the same time. Summaries just don't do it justice.

For the first time, it provides a detailed depiction of the reality of the global marketplace. It underscores what we have been saying all along—in today's world, and even more so, in tomorrow's world, unilateral disarmament would not simply be foolish. It would be the height of irresponsibility, a failure of our most basic obligations to the American people.

Our belief in the need for effective, coordinated strategy is the foundation for all other work we have done in the TPCC since we took office. With that in mind, the TPCC's mission is to strategically target our resources to those companies and markets where our programs are most effective.

Let me tell you what our game plan has been, just very briefly.

We have expanded our Big Emerging Market program and you, Mr. Chairman, were kind to hold up the Big Emerging book that depicted those activities.

We have included ASEAN as a region of extraordinary growth potential, including Vietnam. We have developed country-specific plans for export promotion in each of the BEM's and established business development committees and commercial centers in many of them, virtual homes away from home for American businessmen and women who are attempting to do business in those countries.

These ten markets comprise half of the world's population. And by 2010, they will be a bigger market than Japan and the European Union combined.

I think what that demonstrates, Mr. Chairman, and Members of the Subcommittee, is that we are attempting to look beyond the horizon, not just to look to next week, next month, and next year. But what is the world going to be like at the beginning of the 21st century, and how do we compete and win in what will be a new global economy, with all the new realities that that fosters?

Those countries will account for 50 percent of the GDP of the entire industrialized world. These markets will take more than a quarter of the world's imports in the next 15 years and are where the potential for American sales is the greatest.

We have strengthened the coordinated efforts of our advocacy center at Commerce and our interagency advocacy network. That's been demonstrated, frankly, by taking a budget—talk about lever-



aging Federal dollars—taking a budget of \$250 million for the International Trade Administration of the Commerce Department and leveraging that into over \$54 billion worth of deals for American businesses, almost \$26 billion of that directly representing U.S. export content—therefore, creating or supporting American jobs.

So there is a direct relationship here and no one is more familiar with that than Senator Bond.

We estimate that these business deals represent our ability to support about 370,000 jobs here at home.

We have continued our efforts to bring together, as I indicated, Ex-Im Bank and SBA with our export assistance centers. These efforts, I think, are paying big dividends for small- and medium-sized businesses, many of which really need some hand-holding.

Some of them are afraid to talk about exports. When they think about exports, they think about exporting to the state next door, rather than around the globe. A lot of this is an education process. A lot of this is matching potential buyers with our sellers. A lot of this is providing the kind of data that they need in order to get into the global marketplace with confidence.

We have improved access to trade information through electronic means, our National Trade Data Bank and Internet. We have reached out to small- and medium-sized companies, as I've mentioned. We have reinvented our commercial service with 73 domestic and 134 overseas posts in 69 countries to increase its accessibility to small- and medium-sized businesses. We have made progress in developing a truly unified budget.

We are not all the way there yet. As you know, it's a difficult process as you find in the Congress as you work through these matters. But I think we have taken major steps in that direction.

Let me talk briefly about our strategies for the future because I think that's what really we are all about, and then turn it over to Ken Brody and Phil Lader.

In addition to building on these new approaches to trade promotion, we will, in the coming year, pay particular attention to two areas we think are critical to ensuring that the United States economy remains globally competitive. First, we will sharpen and deepen our advocacy efforts to enable those companies already competing overseas to meet their competition head-on. Second, we will work to ensure that small- and medium-sized companies have a better chance to really compete and win in the global marketplace. Also, we will carry forward our efforts to monitor foreign competition, building on this year's study.

I think it is absolutely crucial that we have a sense of what our foreign competitors are doing and how they are doing it.

Where efforts should be taken to work within the TPCC to deal with questionable practices, we will work with those agencies such as the State Department and Treasury and USTR, who have the lead in ongoing negotiations. Where other responses are demanded, we will work together to develop them.

We face many challenges. We have set some goals. Our \$1.2 trillion goal for American exports by the year 2000. As I indicated earlier, I think we are well on the way to achieving this goal. A focus on the Big Emerging Markets is important.



I mentioned in the closed hearing that I leave for China on Sunday to once again focus on some aspects of our commercial relationship, in preparation for the President's visit with Jiang Zemin, which is going to take place the week after I return.

I think we have to be there on the ground. I think we have to be competing. I think the future of the American economy is at stake.

At the same time, next month, we are convening what we call a TransAtlantic Business Dialogue, not forgetting our important commercial relationship with Europe. As we focus on the Big Emerging Markets, we want to make sure that we don't forget about our trading partners in Europe and how we build that relationship.

So we are going to Brussels with American business leaders—or, rather, to Seville, Spain—with American business leaders, to work with European business leaders to overcome some of the standardization and certification issues which are the micro-issues, the non-tariff barriers, which affect our ability to compete.

We all have talked a little bit about the successes, and they haven't been just the successes of the Commerce Department. As you know, Secretary O'Leary has been involved in trade missions. Secretary Pena has been involved in trade missions, as well as my colleagues at this table.

We know how important it is to focus on small- and medium-sized businesses, how important they are to America's economic future. As large firms downsize, we have to get the small firms into the export marketplace.

In conclusion, let me just say, Mr. Chairman, to place our overall strategy in the proper context, our competitors clearly recognize the importance of high-level Government involvement in these competitions. They are spending even more, as we talk about cutting back, and becoming more aggressive, even as we debate slashing our own resources.

Maintaining our momentum under the National Export Strategy has never been more crucial to the future competitiveness of American business and the livelihood of American workers. Unless we work to ensure our companies are able to meet the competition, our strength in the markets of tomorrow and our future livelihood will be at risk.

The most important task, I believe, facing the United States as we look toward the next century is the maintenance and creation of high-wage, high-quality jobs for our people. The National Export Strategy is one of the most cost effective ways to accomplish our goal.

Thank you very much, Mr. Chairman.

Senator BOND. Thank you, Mr. Secretary.

I will turn to Kenneth D. Brody, President and Chairman of the Export-Import Bank of the United States.

Mr. Brody.

**OPENING STATEMENT OF KENNETH D. BRODY, PRESIDENT  
AND CHAIRMAN, EXPORT-IMPORT BANK, WASHINGTON, DC**

Mr. BRODY. Mr. Chairman, Members of the Subcommittee, it's a pleasure to be here. If I could, I would like my statement to be entered into the record.

Senator BOND. We will be happy to accept your full statement into the record and would urge you to emphasize for us the high points of it.

Mr. BRODY. Let me be brief, as you suggest.

First, let me step back for a second and put on my private-sector hat, from whence I came and to where I shall return after my period of Government service. I want to look at the TPCC and the new export strategy, organizationally, and make a couple of comments.

The National Export Strategy is a model, a successful model, for how Government can work and should work. The National Export Strategy started out in Congress with concerned and knowledgeable legislators who put together smart, thoughtful, and insightful legislation, creating the TPCC.

When I first came to Washington in February 1993, one of the things that I did before my confirmation was to do a lot of reading. I was overjoyed with the legislation that this body enacted to set up the TPCC. It seemed to me like a very smart, strategic plan for a business.

The Clinton Administration accepted the challenge presented by this legislation and executed its mandate. In a nutshell, this Administration has organizationally done what our most successful companies are doing today.

They have taken highly specialized units, such as the TDA's, the OPIC's, the Ex-Im Banks, and the SBA's, who perform specialized functions, and tied them together through matrix management, creating a virtual trade agency.

Most companies have found this kind of organization far superior, allowing each specialized unit to bring out their best but still be tied together.

Let me provide some concrete examples of how this organization works today. How we see it in our daily lives at Ex-Im Bank. It is very, very different than what occurred at Ex-Im Bank just a few years ago. My perspective is that of Ex-Im Bank but it's really the same story at agency after agency, cabinet department after cabinet department.

Project finance has been a runaway success in the past year for this Administration.

At Ex-Im Bank, we have done \$2.1 billion of project financing in our first year with a specialized project finance division. This compares to an average of \$150 million a year in the prior 3 years. Next year we anticipate Ex-Im Bank support for project finance will be \$3 to \$4 billion.

This success has come not just because of Ex-Im Bank, but because of the close ties between Ex-Im Bank and OPIC. OPIC has the role of providing risk insurance and also an enlarged role of providing debt financing for these projects.

Our agencies relationships are very close and very good and w truly work together. This never happened in the past.

TDA now works together with Ex-Im Bank so that when they fund a feasibility study, they know early on whether Ex-Im Bank is a likely source of financing because they have talked with Ex-Im Bank. As a result, if that particular study turns into a real project, the project has a very high chance of being financed by Ex-Im Bank.

In the past, there was a complete disconnect. We simply did not work together to coordinate financing opportunities.

With the Small Business Administration, many believed that it would have been impossible for Ex-Im Bank to work together with the Small Business Administration when Congress passed legislation requiring the two agencies to work seamlessly together in dealing with small exporters. This never happened before.

After 1 year, there has been real success between SBA and Ex-Im Bank in the pre-export working capital program. The program is very important for small businesses because it allows them to get the kind of funding they need to be able to export overseas.

Each of our two agencies has had very significant increases in both the total amount of financings and the overall number of transactions. There has been a real favorable response from the small business exporters of America.

We have also worked with Treasury in a real partnership role to make the U.S. Government more effective in negotiating a reduction in subsidies and activities by other countries in this export battle which we view as improper.

The United States Foreign and Commercial Service are our eyes and ears out in the field.

Obviously, there is more to do.

We continue to work with Commerce in a variety of ways to improve coordination. We have started a pilot program to place an Ex-Im Bank loan officer in China, for spending 3 months with the Foreign and Commercial Service.

We also have an Ex-Im Bank officer who is in the middle of spending 3 months in Argentina and Brazil, again, working with the Foreign and Commercial Service. This cooperation and integration, which didn't exist before, provides big dividends for American workers.

I think we have all heard a lot about the Advocacy Center at Commerce. One of the reasons that that Advocacy Center is such a success is it really pulls all of the relevant agencies together so there is a real focus on what the U.S. Government is doing.

We are probably better organized than many multi-divisional companies and have better working relationships to get things done. So, as I look at all of this, I am extremely pleased and proud of the success we have had to date.

Let me close by reading two letters which I think are typical of the kind of responses Ex-Im Bank is getting from its customers as a result of our changes. We are getting very, very strong responses from large businesses. But we are also getting equally strong and positive responses from small- and medium-sized businesses.

There are two I particularly like. One, from a small business exporter, in California:



"Although I didn't get the yes answer I wanted, I appreciated the fact that you responded to my urgent need within 1 hour. Thank you and keep up the good work."

Well, there aren't many businesses in America that have their customers praising them when they turn them down. And that's what you see here and that bespeaks of an attitude which is very difficult to measure, but which has immense value.

Then my favorite letter. It is addressed to Ex-Im Bank, but it could have been addressed to any of the agencies and departments working that are part of the National Export Strategy.

"I am writing to tell you that my experience with the Ex-Im Bank has been the most pleasant Government experience I have had, since my discharge from the United States Army."

[Laughter.]

That's the kind of resonance the TPCC's work is having. I think our future depends on our specialized units continued ability to perform in better and better ways, working together to hone what we are already doing. In this way, we are creating more and more jobs in the private sector, and allowing the private sector to create good jobs through exports.

Thank you.

Senator BOND. Thank you, Mr. Brody.

Next we will hear from Mr. Philip Lader, Administrator of the Small Business Administration.

Welcome, Phil.

#### **OPENING STATEMENT OF PHILIP LADER, ADMINISTRATOR U.S. SMALL BUSINESS ADMINISTRATION, WASHINGTON, DC**

Mr. LADER. Senator, thank you. Thank you all for letting me join you today. I ask if you might enter my statement and a letter from the CEO of the Hibernia Bank that I will refer to later, into the record.

Senator BOND. The full statement and the letter will be accepted. We would invite you to summarize the high points of your testimony.

Mr. LADER. I shall do so. I can't help but comment when my good friend Ken Brody refers to his return to the private sector. After his recitation of letters like that, Ann Landers has some serious competition ahead, I think.

[Laughter.]

I have to say, sir, that small business is near to the heart of every Member of this Subcommittee. Clearly, the principal engine driving job creation and the growth of our economy.

The Clinton Administration has worked hard to provide small businesses with the tools they need to compete effectively in the export markets. This National Export Strategy has been the vehicle in delivering these tools.

I simply want to say that the TPCC is working and is working for small business. This reports shows its progress toward a much more coordinated approach for assisting small- and medium-sized exporters.

At the White House Conference on Small Business this year, more than 2000 representatives from your States and each of the States made it very clear, loud and clear, that the TPCC must con-

tinue to work for small business. They pointed specifically to the new export working capital program that Ken Brody referred to.

Launched as a pilot in October 1994, this program's objective is simple—to increase small business's access to capital by helping those who are capable of exporting, but who might not qualify for conventional balance sheet financing. In other words, this is transaction-based financing and it's off to a great start.

We have troubled at SBA the number of small business export working capital loans this past year. The number of banks participating in this program has risen from 62 to more than 150 in the past year.

I can give you countless examples of how small businesses would not have been able to compete in international trade without this program.

A significant TPCC accomplishment has been the harmonization of the SBA and the Ex-Im Bank's working capital programs with a single, one-page application, the streamlining of our processing, faster service. Today, the SBA, I'm pleased to say, will do a turn-around in 3 to 10 days. And with the USEAC's open now, this will be even improved further.

We are helping both export-ready firms and firms new to export. For that reason, we have relocated SBA staff nationwide. We have trained 300 members of our staff around the country to work on export working capital loans. We have set aggressive goals for our field offices in this regard.

Now why is the Small Business Administration involved in this process as well?

Not only as part of the TPCC, but many small businesses, as you know, have a longstanding relationship with the SBA. It is important that our field structure, 7000 banks as partners, with more than 13,000 score retired executive volunteers working with us. With more than 950 small business development centers. That this field network essentially is of service to help small businesses go global.

That's an important role of technical assistance in addition to financing that the SBA provides.

In addition, this past year, we have established three State export finance relationships. We will be expanding that this year and develop these export trade assistance partnerships to get our resource partners deeply involved in this process with us.

I believe the SBA this past year, as this report demonstrates, has turned the corner in helping small businesses in our country go global.

But our goals for this year—first, to complete the harmonization of the SBA to Ex-Im Bank programs, to expand the number of lenders participating in this export capital preferred lenders program, to examine the feasibility of extending guarantees to nonbank lenders, and to increase the number of co-guarantee arrangements with State export financing authorities.

There's one matter, Mr. Chair, of concern that you and I have discussed and that's the subject of this letter.

Just recently, I was meeting with international trade leaders in New Orleans 2 days ago. I was much dismayed that, as a result of what they were telling me, the headline in the Times Picayune

the next day read: "SBA Chief Told Export Loans Have Lost Luster."

The letter from the CEO of the Hibernia Bank explains this. He says that the SBA has proven to us that its guaranteed loans under the working capital program can be done quickly and easily. And since most of our target market is made up of small businesses, this is critical.

But if the SBA guarantee is reduced, it will have an immediate detrimental effect.

The Chair knows what I refer to is the lack of harmonization in terms of the guarantee level between the Ex-Im Bank and the SBA in our export working capital programs.

So while we have a splendid record to look back on, I hope that it will not be a very short record of true harmonization with the Ex-Im Bank, that that might be addressed by the relevant committees.

Mr. Chairman, I believe that we are finally heading in the right direction. The TPCC is working well. The Commerce Department is providing extraordinary leadership for us.

But I want to say that the SBA is committed not only to help America's small businesses to go global, but to make sure that the TPCC is increasingly effective as well.

Thank you very much.

Senator BOND. Thank you very much, Mr. Lader.

First, for Secretary Brown. We have already discussed the fact that earlier this morning, you briefed us on the classified report detailing the unfair and illegal trading practices of some of our trading partners and best friends and allies.

Of course, in the finest Washington tradition, the classified report was discussed in this morning's newspaper. I'm sure everybody saw that. For those of you who missed the classified briefing, you can read much of what was in that in the paper today, or at least the summaries.

But after the briefing—as I mentioned, I'm extremely concerned about how we can combat the practices. As you know, the Committee was a leader in enacting the Foreign Corrupt Practices Act. We remain concerned about corruption in international business deals. We do know, and the unclassified portion of the report states that there clearly has been bribery, the use of foreign policy threats, the threat to withhold foreign aid to some of our allies if deals were not given to those countries.

We can't get down—we won't get down in the mud and play in that game because it's wrong, it's illegal. We are not going to change that law. But tell us, what can we do? What can we do on this Subcommittee? What can you do to help fight these practices and ensure that American companies have a fair shot at these deals?

Secretary BROWN. We have started to do it, Mr. Chairman, through our interventions with the OECD, to make sure that those issues are high on the agenda of that organization.

It is my hope, that we not give any consideration to altering our own laws, but that we urge other countries, our foreign competitors, to apply the same kinds of laws, a kind of Foreign Corrupt



Practices Act of their own. That's the only way we can level the playing field.

In the meantime, Mr. Chairman, it seems to me, that it is appropriate for us to closely monitor what they are doing, to call it to the public's attention, to raise it in all our bilateral meetings. Frankly, to try to embarrass them. It seems to me that these kinds of practices are not only abhorrent, but they put the United States at a tremendous disadvantage.

It also seems to me that it indicates that we have to be more aggressive, not taking up their model of behavior, but being more aggressive in appropriate advocacy efforts—standing shoulder to shoulder with American business and industry to try to counteract their kind of tawdry influence.

It seems to me further, Mr. Chairman, that the activities we have engaged in over the past couple of years have begun to bear fruit.

The United States is not without influence in the global marketplace. I believe that it does matter when the Secretary of Commerce of the United States, accompanied by officials of Ex-Im Bank or SBA, gets off an airplane in a country with 25 or 30 CEO's of American companies, small and large, and we step on that tarmac. It reverberates throughout that country. And it does have an impact on the decisionmaking process.

We must remember that in the developing world, most of the decisions are made by government officials. When we send signals that the United States of America, that our Federal Government, is standing with American business and industry, it does make a difference.

It seems to me that we ought to be doing more, not less, of that. It seems to me we ought to be more aggressive, not less aggressive. It seems to me it is appropriate for it to be known around the world that the United States cares about American business and industry not only competing, but winning, in the global marketplace.

I would hope that the Congress would agree that more activism in that regard is one important way to counter the activities that many of our foreign competitors are using.

The resource question is an issue, I might add, Mr. Chairman. I think when you look at the data, it becomes clear that we are being outgunned. We have to stop being outgunned if we are serious about growing our economy.

We have all acknowledged that exports are a key to economic growth in America. You look at what your competition is doing and you figure out how you're going to counter it. You figure out how you're going to put together a strategy that makes you a winner and keeps you from being a loser.

We need to do more, not less, of that.

Senator BOND. Mr. Brody, just a quick question. Talking about the Big Emerging Markets. Many businessmen I talk to are very much interested in Vietnam. But they always ask me, what about Ex-Im Bank financing for Vietnam. What should I tell them?

Mr. BRODY. Ex-Im Bank is ready to go forward as soon as we are allowed to. And either Congress can cause us to go forward or the President can cause us to go forward.



Senator BOND. All right.

Mr. Lader, I appreciate your comments about your aggressive approach to financing. You mentioned in your statement, as did Mr. Brody, the impact that the conference report on S.895, the Small Business Lending Enhancement Act of 1995, may have on small business loans.

You mentioned in your statement that this may have some curtailing effect on small export loans. But as you state it, SBA guaranteed only 200 export working capital loans in fiscal year 1995, out of a total of 55,000 loans made to small business. Even with a 90-percent guarantee rate, SBA has been falling short of its goals.

Specifically, I noted that when your budget request was submitted to Congress in late March 1995, in that, you and the President advocated a reduction in the guarantee rate for all SBA 7-A loans, 75 percent, which is similar to S. 895.

In your proposal to Congress, you were recommending that the guarantee rate for export working capital loans be reduced to 75 percent. At the time you testified before the Senate Committee on Small Business, while we were marking up S. 895, at that time you didn't mention to us your concern for the reduction in the guarantee rate for export working capital loans.

Can you give us some idea of what brought this to your attention because, obviously, we were very concerned about it. But when we tried to fix that, when you brought it to our attention on the floor, the House would not accept it in the conference report. What brought to your attention the impact that this could have on small business export loans?

Mr. LADER. Several responses.

First, the arguments that you've just set forth are the best arguments supportive of our claim that we really need the continued harmonization of the program in terms of the guarantee level between Ex-Im Bank and where we are, because we don't want to put small businesses or smaller banks at a disadvantage where they can use their capital to help do export working capital loans for larger companies and choose not to do so for smaller ones. Or if they've had the traditional relationship with the SBA and they are not as inclined or don't have access to the Ex-Im Bank, that they feel that somehow they are crowded out of that access.

In addition to that, what's brought to our attention is to get the response from lenders and from small business persons themselves demonstrated by the letter I read from today in this newspaper article where there's been an outcry just over the last few weeks and concern about whether in fact the true harmonization would have been for one brief shining moment.

My final observation on that is that I am very supportive, as you know, of the reduction of the guarantee level of the 7-A loan programs. I believe it gets greater scrutiny from the private lenders. I believe it allows us to increase the number of small business loans made generally.

It puts to a disadvantage, however, those small businesses that are choosing to expand their export activities when in fact many lenders still look at, as Chairman Brody has often said and has testified, often looks at export working capital as a very different

breed in transaction-based financing and are less inclined to participate. That's why we bring it to your attention again.

Senator BOND. Well, we appreciate your bringing it to our attention. We were caught short a little late in the game to make that change. But we have asked for a report in 120 days, and that letter you've provided and the information that I will seek also from Mr. Brody we hope will help us remedy that situation.

Senator Boxer.

Senator BOXER. Thank you so much, Mr. Chairman.

About 6 years ago, I was a Congresswoman representing the San Francisco Bay area. I put together an informational meeting for people in my district, small businesses to see if they were interested in learning about exports.

I cannot tell you the response we had then and that was a long time ago. We had to—people were angry because there wasn't enough room. We had to open up the room. We had to put people outside.

We then did several follow-ups. The interest was so enormous and the level of knowledge was so low in how they should proceed, which got me very interested in this whole area of small business and exports. I've written some bills that deal with having more seminars and more export centers and all the rest of it. There really is bipartisan support for this.

I know that Ex-Im Bank has a reputation of being the big business bank. Can you give me some specifics as to what you're doing to change that, in fact, and what are you specifically doing to reach out? Can you give me some numbers in terms of what you're doing? If you can't give me those numbers right now, can you get them to me in writing?

Mr. BRODY. I will give them to you right now.

Senator BOXER. OK.

Mr. BRODY. The statement that Ex-Im Bank is a bank for big business is a myth. The numbers clearly demonstrate that and they are becoming more and more vivid. Let me tell you what they are.

Ex-Im Bank's small business transactions increased by 40 percent over the past 2 years, from approximately 1,200 plus to 1,700 plus transactions. Those small business transactions account, in fiscal year 1995, for close 75 percent of all of the Ex-Im Bank transactions. Hardly a big business bank when close to 75 percent of its transactions are for small business.

Of course, small businesses do smaller transactions than big businesses. Understanding that, however, the dollar volume directly attributed to small business within Ex-Im Bank in fiscal year 1995 is slightly below 20 percent of the Bank's total dollar activity.

So we have a great deal of small business activity as a percentage of the Bank's total dollar activity and it is growing at a significant rate.

Why is this happening?

In part, it's happening because of what's going on in the environment. More and more small- and medium-sized businesses are stepping up to the export plate. There is more of a familiarity

around the country with exporting. The USEAC's help. The SBA's role helps. We have become a good bit more friendly.

For example, in the Bank's pre-export working capital program, which is 95 percent for small business, we increased authorizations from \$180 million-plus in 1994 to \$308 million in 1995.

I predict that the increase in fiscal year 1996 will be even more dramatic. We are just really getting rolling. These figures do not take into account the Small Business Administration's numbers, which this past year harmonized its program with the Bank. Similar, but smaller transactions.

The key to this increase is that we have learned how to team up effectively with the private sector and not allow Government to be an obstacle. We conclude that a small number of people primarily sitting in Washington, even with our interagency relationships and outreach, cannot effectively serve the Nation's small businesses.

What we have done is to set up delegated authority lending with financial institutions. These financial institutions, primarily banks, can approve the working capital financing for small businesses without coming back to Ex-Im Bank.

In the past, we offered a 100 percent guarantee to banks. We have moved that guarantee to 90 percent, increasing the bank's risk from nothing to 10 percent, and are aggressively signing up banks. We now have—53 banks signed up in 22 States, which account for a little under 40 percent of the Bank's total working capital authorizations.

I also predict that delegated authority approvals will increase significantly.

Senator BOXER. Mr. Brody, I have to stop you there because my time is running out. I really want to ask Secretary Brown one question. But I have to say, this is very good to hear. I have no prejudice against lending any type of business money if it means creation of jobs. The reason I press the small business button is because that's really where it's all happening, and we know that when we look at the facts. We know that's where the expansion is. So I'm very pleased to hear that.

I really just had one question, if I might finish up my time here. There was an LA Times article that kind of gave a criticism to us because we had really ignored countries such as Malaysia, as an example, that were really booming because we had a prejudice, sort of, in favor of other parts of the world.

I was pleased to hear you mention Vietnam and the other countries on the Pacific Rim. Could you just tell me now are we doing things differently as a result of this incredible emerging market in those types of countries?

Secretary BROWN. Much differently, Senator Boxer. We added the ASEAN countries to our list of Big Emerging Markets. In other words, expanded beyond Indonesia. That was the only ASEAN country we had included before—but now we have Malaysia, Vietnam, and other countries of ASEAN because of exactly your point.

The opportunities there are extraordinary. When I was with the President in Indonesia last year at the APEC meeting, I took some time and went over to Malaysia for just that purpose, because it had become clear that this was a market that could not be ignored.



So we are giving a lot of attention to that part of the world, a very fast-growing part of the world.

Senator BOXER. Good. Excellent. Thank you very much, Mr. Chairman.

Senator BOND. Thank you, Senator Boxer.

Senator Faircloth.

Senator FAIRCLOTH. Thank you, Mr. Chairman.

I have just one or two questions. I certainly want to keep them in the right vein. I don't want Senator Boxer to think I've gone soft or nice. So I will get on with the questions.

Mr. Brody, I just have absolute curiosity. The man liked you better than he liked the Army. But how did he like the Army?

[Laughter.]

Mr. BRODY. Can you repeat that question again, Senator?

Senator FAIRCLOTH. The man in the letter said yours was the nicest agency, the nicest Government he dealt with since he left the Army. I was just wondering how he liked the Army.

Mr. BRODY. I think what he was trying to say was it was real nice to leave the Army.

[Laughter.]

Senator FAIRCLOTH. I am aware of the progress that's been made with the Ex-Im Bank, with the Commerce Department sales. Certainly, Mr. Lader, Erskine Bowles, I think, the man you followed, and you certainly kept up tradition, did a great job with the SBA, and I'm proud of it.

Secretary Brown, I had a question or two. One of them came from an article in the very, very liberal Wall Street Journal. In this article, they alluded that the political influence on a number of the trade missions abroad that you have had, and since you've been Commerce Secretary, the statement—you've read the articles—that you selected the people to go because of close ties to the Democratic Party, contributions to the Democratic candidates, the Democratic Party. My question is have you ever consulted with the Democratic National Committee about who you take on the trips?

Secretary BROWN. No, I haven't, Senator Faircloth. And if decisions were based on that, I would have very small missions. The fact is that most of the people I take with me are Republicans and most of them are big Republican contributors, as most CEO's of companies are.

Senator FAIRCLOTH. Well, that wasn't what they were saying. The Commerce Department is being sued under the Freedom of Information Act about releasing documents related to the selection process and who goes on the trips. I've been told that you are refusing to release some 3000 documents, mostly internal Commerce Department papers. Any reason why you would not release them?

Secretary BROWN. If you're talking about the one organization that sends us FOIA requests about once a week and that has tied up a great number of Commerce Department staff, I believe we have been very responsive to those requests.

It is not very hard to bring a lawsuit of that kind. We have attempted, using all of the means available to us, to be responsive and to supply documents, whether it be to the Congress or to those who have initiated FOIA requests. We will continue to do that.

Senator FAIRCLOTH. Now, Melissa Moss is in your Department.

Secretary BROWN. She is.

Senator FAIRCLOTH. She was former fundraiser for the Democratic National Committee.

Secretary BROWN. She was.

Senator FAIRCLOTH. Does she have a role in selecting who goes on the missions?

Secretary BROWN. She does not. She runs the Office of Business Liaison. She's involved in the process. We have a very arduous process. It includes our International Trade Administration, those in our advocacy center, our general counsel's office. It is a process that I think will stand the test of scrutiny. Political considerations have nothing to do with the selection of people to go on missions.

Senator FAIRCLOTH. I say in your support, as I said, the Wall Street Journal, which has not been one of your favorite fans, has recognized your skill in what has been in the forefront. Also, in another article I just read they say your trip to China last year hasn't produced the \$6 billion that was promised. Would you like to comment on it and respond to the article that went out that the \$6 billion was promised and they can't find it?

Secretary BROWN. Absolutely. I'd love to comment on it. I remain very bullish on China, as far as the commercial opportunities for the United States of America. We have looked at all those projects in a detailed fashion and let me describe what the situation is.

Of all of those projects that were announced, only one of them, it appears, is going to be held up. That was the Energy Project. Every other project is proceeding on course.

In addition, Senator Faircloth, we have closed deals on \$2.4 billion of additional projects that I advocated for while I was in China, but we did not announce.

So we think we are doing very well. We think things are on course. Most of these are gigantic power generation projects. Some of them over a billion dollars. They don't start construction the day after you sign the agreement. There are all kinds of things that happen along the way.

But we are absolutely confident on all the projects, other than the one Energy Project, which was a big project, which will be delayed for several years as they phase in power generation.

But I'm very optimistic about our business relationship with China. Some of the things I'm going to pursue when I leave on Sunday is how we cut through some of the redtape, how we eliminate some of the bureaucracy, how we get to some of these standards and certification issues that are basically nontariff barriers.

We will be convening the session of the United States-China Joint Committee on Commerce and Trade, which I co-chair, to deal with some of these issues. But we are very confident that our relationship in a commercial sense with China can grow and prosper. We are confident in the deals that we announced, besides the one that I have acknowledged. And we have done others amounting to almost \$2.5 billion, which were never announced before.

Senator FAIRCLOTH. How much was involved in the one that you mentioned that you're having difficulty?

Secretary BROWN. About \$1.3 billion, which we know will be delayed now at least several years.

Senator FAIRCLOTH. All right, Mr. Chairman. I have no further questions.

Senator BOXER. Mr. Chairman, if I might say to Senator Faircloth, you were not too nice.

Senator FAIRCLOTH. Well, I'm——

Senator BOND. Senator Boxer, I think we can do without those comments.

Senator BOXER. Well, Senator Faircloth and I have a good relationship and he took it in a fun spirit.

Senator BOND. Thank you. Senator Murray.

### OPENING COMMENTS OF SENATOR PATTY MURRAY

Senator MURRAY. Thank you, Mr. Chairman.

Mr. Chairman, I want to commend each of the witnesses today. I really appreciate the fact that this Administration continues to work very hard to boost our American exports. Certainly in my home State, we have benefited greatly from this Administration's efforts and dedication to export promotion. I want to thank all of you.

I especially want to thank you for the one-stop-shop in Seattle that is working very well. Our exporters are really appreciative of the fact that we finally have one place that they can go to learn how to export and to learn how to do the financing. It is very well taken in our area and I appreciate your effort on all of that.

As I said, my home State is trade-dependent. The health of our economy, all of our jobs are directly linked to exports. So I want to especially thank this Subcommittee for moving in its efforts to expand relations with key emerging markets and for your efforts in helping small businesses, especially with the Ex-Im Bank.

Mr. Chairman, I think that our discussion of trade policies is very timely today because I know that Congress is very seriously proposing cutting back the funding for the Department of Commerce and many of its trade-related agencies. So my question today is to you, Mr. Secretary, because I think we need to understand how we are going to affect many of these programs if we do indeed eliminate the Department of Commerce or cut these programs back. Would you take a few minutes to comment on how you see these cut-backs that are being proposed affecting our ability to export?

Secretary BROWN. That would be devastating, Senator Murray.

As you know, we have given a lot of time and attention to what steps we can take to assure economic growth and job creation in America. And just at the time when global competition is expanding, sometimes in unsavory ways, as pointed out in our report today, to be talking about curtailing efforts would be fool-hardy, penny-wise and pound-foolish, at best.

We have demonstrated how we leverage Federal resources to assist the American private sector to make us a more productive and more competitive nation.

Some of the proposals on the table are absolutely ludicrous. I think although the focus has been specifically on trade and therefore, the International Trade Administration, we need to recognize the synergy that exists between the various units of the Department of Commerce such as the Bureau of Export Administration.



I know Senator Boxer has paid a lot of attention to what we have done to liberalize export controls, so that we are in effect not shooting American exporters in the foot. For example, the big, major liberalizations that the President announced just a week or so ago to follow on the heels of the one that we made about 2 years ago, that really released about \$32 billion of American exports.

The things that we are doing with our Bureau of Economic Analysis that provides data to American business leaders so that they can make the important business decisions they have to make in order to win in the global economy. The things that our Minority Business Development Agency does. The things that USTTA—the United States Travel and Tourism Administration does. All these things work together.

Most importantly, I said in my earlier remarks, sometimes we separate trade from technology. You can't separate trade from technology. You have to produce products that somebody in the world wants to buy. The way you do that is to stay on the cutting edge technologically. And some of the proposals would gut our technology programs. Our advanced technology program, our manufacturing extension program would be gutted by many of these proposals.

I think those are directly related to our ability to compete. They are directly related to our ability to export.

So I think the tendency has sometimes been to look at it in narrow trade or export promotion terms, rather than in the broad terms promoted by the TPCC, where it's not only just the units of the Commerce Department. It's Ex-Im Bank, it's OPIC, it's TDA, it's SBA.

It's all of us working together in the kind of synergistic way that President Brody outlined. Some of these suggestions, frankly, Senator Murray, are solutions in search of a problem. I always thought that the adage was, if it's not broke, don't fix it.

It is working well. We finally got it right. The Commerce Department is working, from most objective analysis, better than it has since anybody can remember. Certainly, the TPCC process has enhanced our ability to make sure that America stays productive and competitive, to make sure that we continue to grow our economy and create jobs for our people.

Senator MURRAY. Thank you, Mr. Secretary. I really appreciate those remarks and I hope that we all take them into account as we go through this budget process.

Coming from a State that is very trade-related, and has seen the real effective work of the Department of Commerce in our ability to compete in this new international economy, it's very frightening to me that we would consider doing this at this time and reduce our impact and our ability to compete worldwide.

I have one other question for you that relates back to something you just said.

Last year, due, in part to my urging and the urging of Congresswoman Maria Cantwell, the Administration did agree to do a formal study of encryption technology and its foreign availability. We were supposed to get a report back by the first of July. I was wondering if that report was sitting on somebody's desk.



Secretary BROWN. Well, it's not sitting on anybody's desk in my office, Senator Murray. We completed that report in a timely fashion. It is at OSTP and NSA now. We have done what the Congress asked us to do and I can just refer you to the other agencies to follow up on it.

Senator MURRAY. Thank you very much.

Senator BOND. Thank you, Senator Murray.

Senator Moseley-Braun.

#### OPENING COMMENTS OF SENATOR CAROL MOSELEY-BRAUN

Senator MOSELEY-BRAUN. Thank you, Mr. Chairman.

At the outset, I have a formal statement for the record.

Senator BOND. We'd be happy to accept that statement in full.

Senator MOSELEY-BRAUN. Thank you. I want to congratulate and commend the Secretary and the other witnesses for your effort and your focus, particularly on exports by small- and medium-sized firms.

I think there's a great deal of opportunity in that area and your efforts so far have been wonderful. You can only be applauded, and even the Wall Street Journal applauded from every sector for your efforts and for your successes to date. So, I wanted to kind of shift gears. I don't want to gloss over complimenting you for your achievements because I think, if anything, we don't often enough tell the good news stories.

You gentlemen certainly have a good news story to tell, not only for this Administration, but really for this country because I think we have moved further along in providing the kind of public/private partnership for job creation and growth and development and exports with your efforts than we have with almost anything else. And so, I want to congratulate you for that.

I have kind of a tougher question, really almost a general generic one, philosophical, even, that I did want to explore with the Secretary, and anyone else, frankly, who would like to comment. It goes to your comment about China.

There is in the business community an emerging consensus, I think, if it isn't already a consensus, that certainly China, Japan, and the Pacific Rim, will be the markets for the 21st century, that these are emerging markets, developing markets, and we really need to engage fully to be on the ground to take advantage of the opportunities for export in that part of the world.

The Secretary used the expression, bullish on China. Certainly, I think that would be music to the ears of a lot of people. And your efforts in the Department of Commerce and the Administration overall have been taking steps to help develop the kind of infrastructure that is necessary for American firms to do business there. And that's good.

So those pieces are coming along. However, there really is a real concern and question out there about market integration. There really are some concerns about not only the human rights issues, but the labor issues and the production issues pertaining to those economies. These are issues that I don't think can be papered over, even as we applauded these in developing the infrastructure.

At the same time, there really is some trepidation out there that we may be on a slippery slope, if you will, going in to compete in

these new markets really while there are such great distances and differences in the competitive environment. Kind of like Carol Moseley-Braun going one-on-one with Michael Jordan in basketball, which is not exactly something that I'd want to do.

In China, particularly, we have issues having to do with the kind of labor standards. We have issues with the continuing allegations about prison labor and dumping in the market. It seems to me that given all these, and without listing all of the problem areas and concerns, it seems to me that the bribery issue almost becomes easy compared with these more fundamental and systemic issues.

We even can go to talk about health care as being a subsidy for business in those countries where it's a cost for businesses here in the United States. And so, those kinds of competitive differences really will have an impact on our ability to compete in this emerging 21st century market.

I really would like for you to comment, Mr. Secretary. How do you see it? Because those are sovereign nations. We can't very well do anything to make over their economies in our image. At the same time, how do we help to level the playing field a little better for American firms seeking to compete in these emerging markets?

Secretary BROWN. Thank you for that question, Senator. It is a very appropriate question and one that we always grapple with.

I clearly recognize that the United States has interests in addition to its commercial interests. We have interests that go to the very heart of our ideals and values and how we help assure that those ideals and values are broadly shared all around the globe.

I think the question is how do we get there? How do we achieve those goals? And I know that there are some who think that you achieve those goals through withdrawing, through disengaging.

I happen not to believe in that course, nor does the President. We believe in commercial engagement. We believe that we can have an impact on those issues much more effectively if we are on the ground. American companies are exercising the so-called best practices, in the way that they run their factories, the way that they do their business. We can have much more impact on these societies than if we withdraw or pull back or disengage.

Senator MOSELEY-BRAUN. This Senator wouldn't argue with that at all.

Secretary BROWN. That's the judgment that we have made. There are some who disagree with that judgment. I can give you an example. There was some criticism when I went to China shortly after the MFN decision. The President made the right decision on Most Favored Nation status. And there were some who criticized us for going to China and not immediately getting off the airplane and making a loud and bellicose statement about our deep concern that I share about human rights abuses in China.

We chose a different approach. We chose to be very aggressive, but in private meetings with the leadership in China. And lo and behold, what happened about a half-hour after we left the meeting with Jiang Zemin is he announced resumption of the human rights dialog.

We happen to think that there is a better chance of achieving progress with that approach. Does that mean that we have solved those problems? Absolutely not. Does that mean that we don't have

a long way to go? Absolutely not. We ought to keep pressing in ways that we think can achieve our objectives.

You can say and do things sometimes that make you feel good, but they don't get you where you want to go. We are very results-oriented, trying to achieve the results that are inherent in your question. Things that you're concerned about are things that we are concerned about.

I think the leveling the playing field question is a little different. That is, how do we change the process in China? Not only in China, but in other parts of the world.

How do we assure that it is transparent, that we really do get a fair shake? Those are things that we deal with every day. That's one of the reasons why I'm going back to China over the weekend, is to convene this meeting of the United States-China Joint Committee on Commerce and Trade with my counterpart, Minister Madam Woo Yee, to talk about these specific issues, to not only talk about kind of the macro-view, but what's the micro-view? What really happens on the ground? So we continue to press these issues.

I might say, though, that, to be sure, if we did not pursue this approach of commercial engagement, commercial diplomacy, if you will, we'd be out and all of our competitors would be in because, frankly, they haven't shown deep concern about the issues that you express concern about. They've only shown concern about their commercial interests and they are going to be over there pursuing them.

I think that when you're dealing with a country of 1.2 billion people, with an economy growing at 13 percent a year, and you're serious about economic growth and job creation in America, you have to be there competing for that business. There's going to be about a trillion dollars in infrastructure projects built over the next decade in that part of the world. We need to get a big piece of that action.

Senator BOND. Thank you very much, Senator Moseley-Braun.  
Senator Sarbanes.

## OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Thank you, Mr. Chairman.

First of all, I apologize to the witnesses for not being here, but we were holding a hearing on the confirmation of Jim Sasser, to be our Ambassador to China. The hearing went very well.

I just want to make a couple of comments.

First, I know that Chairman Bond has already made reference to it, but the Trade Promotion Coordinating Committee is really the brainchild of this Subcommittee. We held the hearings on what the problems were in terms of developing coordination. We put forward this concept of the coordinating committee.

I have to say to Secretary Brown and Ken Brody at the Ex-Im Bank and there are other colleagues who picked up on it and have really carried it through, this is an excellent report. I've had a chance to look through it, and I really want to commend you.

It gets better year to year as you build on past successes. The advocacy network and the advocacy center of the Commerce De-



partment are doing, from all reports, a very effective job. I've heard from the business community about them.

Ex-Im Bank continues to pursue an aggressive policy of matching Tied Aid credits, which is having an impact.

You've set up now, I think, a dozen export assistance centers in cities around the country, with three more to come on line. And you continue to work on a refined and updated unified trade promotion budget for the coming fiscal years.

So I think the TPCC has become a fixed part of the international trade landscape and this coordination and cooperation within the Executive Branch, and I know it encompasses the Small Business Administration and OPIC and the Trade and Development Agency and others, is serving our nation well.

Perhaps the highest compliment to the effectiveness of the TPCC is the reaction of our major trading partners and competitors. They are upset that the United States is finally acting forcefully to level the playing field in international trade. In fact, they are stepping up their own efforts to provide assistance to their companies, some of it being done in what I regard as an illicit fashion, which is obviously a problem that needs to be addressed. But the TPCC is playing a vital role and I simply want to commend it.

Now, finally, Mr. Chairman, I want to close with a word about the leadership that Secretary Brown has provided as Chairman of the TPCC. He's made National Export Strategy a top priority. The energy and dedication he's brought to this effort has had fair and objective people in the business community say they've never had such support. I think that's important.

I think it's critical to have a Cabinet-level agency dedicated to this effort, such as the Commerce Department. I regret to say there are some colleagues in the Congress who are beating the drum to eliminate the Commerce Department. I regard that as unilateral economic disarmament.

It would be a tragic mistake, in my judgment, to do that. The Commerce Department is working effectively. It has a lot of different activities under its wing, all of which would have to continue in one form or another. I think Secretary Brown has done a good job of harmonizing and rationalizing those various activities.

But he's given a central thrust to the work of the Commerce Department in terms of this export strategy and support for American business. I think it would be tragic to lose that momentum, which a fight over the existence of the Department would be. It would be a rash decision. We are in an economic competition, an intense economic competition, and we ought not to unilaterally disarm in that effort.

I very much hope—I know you've expressed your own view on that subject, and I share it with you, but I very much hope we can avoid this outcome which some are trying to push through.

Again, I want to thank the witnesses and again, I want to commend you for this very excellent report and for the very fine work that's being done.

Thank you.

Senator BOND. Thank you very much, Senator Sarbanes.

I did, in your absence, make comments about the need to maintain the trade functions. I agree with you—to get rid of them would

be unilateral disarmament. I also thanked you at that time for your leadership on the TPCC idea.

We look forward in this Subcommittee I think to working on a bipartisan basis to pursue these goals.

Senator SARBANES. It was a bipartisan effort in its inception. Senator Heinz and Senator Bond were very intimately involved in those efforts. We have managed to keep it bipartisan throughout, and I think that's reflected in the very strong congressional support for your efforts.

Senator BOND. Well, thank you, Senator, and we intend to do so.

Mr. Secretary, several of us have touched on the big question about what happens to our trade efforts if we are not successful. We intend to pursue not only keeping the functions alive, but keeping them well funded.

Regardless of how well we succeed, and I believe we will be successful in preserving these trade promotion activities, what's your idea of the feasibility or the utility of creating some type of quasi-governmental trade promotion organization which receives both private industry funding, as well as Government?

We compete with the Japanese, but we see some of the things they do that appear to be working. The trade promotion agency JETRO operates out of MITI, the Ministry of International Trade. Would something like that be practical? Would it allow us in any way to get more bang for our buck?

Secretary BROWN. I think whatever we do, Senator, has to be uniquely American. I don't think we ought to be trying to copy what the Japanese do.

Senator BOND. OK. Then I did the same thing in Missouri. I set up the Hawthorne Foundation, which used private businesses to assist the State government in its promotion efforts.

If you want to take a State agency, is there some way that there could be private sector cooperative effort?

Secretary BROWN. Yes, there is. You know we have these DEC's, these District Export Councils, all over the country that are private-sector driven. They include the private-sector business community involved in export promotion.

I think we need to be exploring any way that we can think of to enhance our ability to promote American exports. I think involving ourselves in partnership with the private sector is certainly one very important way to do that. We have taken some big strides in that direction over the last couple of years. I think the private sector now, contrary to years in the past, has more confidence that it is helpful to have Government standing there with them. I think they understand better how the global marketplace works.

So I think it's appropriate to explore all of those potential ways to improve what we do.

Senator BOND. Since you mentioned the DEC's, I, in the time when I was out in the real world, to try and earn a living in Kansas City, I participated in the DEC and tried to encourage people to set up export trading companies. But found that the laws were so constricted, that nobody was interested.

But that leads me to a question for President Brody.

We have a very, very tough time trying to get bankers in states like mine throughout the Midwest and I guess many other regions

to undertake what they view as the difficulty of financing a trade transaction when it's easier to stick to domestic business.

In many parts of the country, it seems that export finance assistance goes in large part to foreign banks who understand and seek out export deals. These deals are helping American producers, but they are still foreign banks. Do you have any thoughts about how we can address the problem and how we can get more American banks to focus on the global market?

Mr. BRODY. I think it is a real issue. Many, many American banks are focused predominantly on the United States because its market is large and they have concerns, fears, and memories of the early 1980's.

I think it is starting to change because there are real opportunities and export finance is becoming more and more a part of the national scene as more companies export.

One of the indications of the kind of change that is occurring is the delegated authority program. For the first time, there are banks with expertise, knowledge, and a desire to go out and do the business. That is why we have 53 banks signed up in 22 States. Of course, that does not include all the States and reflects only a small portion of the number of banks.

I think what will happen is that the number of American banks in the United States will diminish as mergers reduce the size of the banking community. At the same time, the number of banks interested in export finance will increase.

Ex-Im Bank is working very closely with the banks to help move along interest in export finance.

Senator BOND. One very important question for this Subcommittee relates to pending legislation. We have approved legislation to reauthorize the Tied Aid War Chest, S. 1309. I expect that the Senate will be working on that in the very near future. Would you comment for the record on the importance of this authority, tell us what the status of the program is in the interim period. What would happen if the program were not to be authorized by Congress?

I would invite Secretary Brown to add any comments that he might wish after you've answered.

Mr. BRODY. Our matching Tied Aid program, announced by the President as part of our First National Export Strategy Report in September 1993 is, in fact, a very important tool for leveling the playing field.

Since our change in policy we have put out matching offers of approximately \$2 billion. These offers, along with negotiations with our foreign partners and competitors, have caused more and more projects to conform to the international rules and have caused countries to withdraw Tied Aid support from projects where American companies were prepared to compete.

Basically, there's easier hunting when you don't have to confront the United States with its matching Tied Aid. It is a very important tool and obviously we can't move deals forward without the legislation. We thank you very much for your efforts on this issue.

Secretary BROWN. I would just say, Mr. Chairman, that Ken was really the driving force for this policy change, working through the TPCC process.



It's much like the material that we presented to you today. We did an analysis of what our foreign competitors were doing. Although we didn't like what they were doing, we had to make a judgment.

Are we going to just keep saying we don't like it and not trying to match it in a way that helps make us competitive? Or are we going to set aside what was really a fairly small pool of money to try to scare them off that strategy?

So while we are trying to get them out of that business, we decided the one proactive way to do it was to put some money on the table ourselves to help assure that they would stop doing what we had sworn off doing many years before.

Senator BOND. I thank both of you. We will note that that authority was part of the legislation we addressed earlier.

Mr. Brody, you deserve the highest commendation for being very aggressive. You meant it to be used aggressively. You have used it aggressively. I think that that is the best way to negotiate.

Senator Moseley-Braun.

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman.

Mr. Secretary, I hope I didn't misspeak because I did want to make it a point to congratulate your effort with regard to the inter-agency approach on bribery and dealing with the whole issue of foreign bribes.

There was an article in the Journal, I guess today, about it and I wanted to commend you for that because that's a very important initiative and it's just wonderful to see the kind of change in focus using what we have to make certain that we have the best information about doing business in these other countries.

I was really called on, though, to mention, the part of the article that really struck me the most. The last paragraph of it said, even though President Clinton and key Administration officials lobby aggressively around the globe for U.S. business, reports claim that the United States is outgunned. It says that in 1994, for every \$1,000 of gross domestic product, Britain spent about 25 cents on export promotion. France spent more than 17 cents. And Japan spent 17 cents. The United States, by comparison, spent only 3 cents \$1,000 of GDP.

Now, given the legislation, on page 114 of your report, that you expected the Federal funding this time around for trade promotion would be about \$3.1 billion in fiscal year 1995, which is a 13-percent decrease in funding. And of that \$3.1 billion, the Department of Agriculture is to get some 56 percent of it, the Ex-Im Bank, some 27 percent of it, and the Commerce Department, some 8 percent of that.

I don't want to put you on the spot unnecessarily, but could you talk a little bit about the allocation and the needs of your Department specifically with regard to export promotion and whether or not this represents—how can I put it—an adequate sharing of decreasing resources?

Secretary BROWN. The fact is we don't have enough resources to be as effective as we would like to be. We understand the need for belt-tightening and downsizing and doing more with less and we are prepared to meet that challenge. But when you look at the necessity for us to continue to be globally competitive, it certainly



makes no sense to move some of the proposals forward that are now being considered by the Congress.

The appropriators, in fact, have us on a level spending line for the Department of Commerce. At least the House and Senate appropriations bills do.

We had thought we should be ramping up our commitment of resources to those activities.

Some of the dismantling legislation is just ridiculous on its face, in that the way they achieve the cost-savings is 25 or 30 percent across-the-board cuts because they finally come to realize that what they are doing is just box-shuffling, that in fact the functions of the Department are very important and they'd have to go somewhere.

So if they would have to go somewhere and if you set up independent agencies, of course you have to add a general counsel's office and an inspector general's office and a public affairs' office.

You're going to spend more money. You're going to make government less efficient. It's a ludicrous idea. I hope that Members of the Senate will stand up and say it's a ludicrous idea. The fact is it would be, as Senator Boxer and others have said, tantamount to unilateral disarmament in the global marketplace. It makes no common sense whatsoever.

I know there are some who evidently want some kind of trophy, to say that something has been eliminated. But when you eliminate a name, but you acknowledge all the functions are essential, and you just put those functions some place else, I don't know what good you've done. You've done harm to our effectiveness, our efficiency, and you've cost the taxpayers more money.

I would hope, as Senator Bond and others evidently do, that that doesn't move anywhere, that it finds a speedy death in the Senate, and that we try to figure out how to do better what we are doing.

As I said a few minutes ago, some of the recommendations are solutions in search of a problem. I think, if anything, if this shows anything, it shows that what we are doing is working pretty well. We have to find ways to be more effective. We have to keep in mind foreign competitive practices. We have to be more skilled in what we do. But we are clearly, by any objective analysis, moving in the right direction and cutting resources would be just a terrible thing to do at this point in time in the global marketplace.

Senator MOSELEY-BRAUN. Thank you.

Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Moseley-Braun.

Senator Sarbanes.

Senator SARBANES. Mr. Chairman, I have just a couple of questions.

First of all, to Ken Brody. As I understand it, and I was queried about this at a meeting I attended. The Ex-Im Bank uses the War Chest. It does not initiate. It uses it in a reactive fashion and it uses it for purposes of leveling the playing field. Is that correct?

Mr. BRODY. Yes, sir.

Senator SARBANES. So we move in to match what the others have done, not to exceed it.

Mr. BRODY. That's correct.

Senator SARBANES. Then we leave the company, then, to gain the contract on the basis of a fair competition with respect to price and quality.

Mr. BRODY. That's correct.

Senator SARBANES. Now, what mechanisms, Mr. Secretary, are in place for support from the private business community for these efforts? Is there a formal advisory council or consultative group?

Secretary BROWN. Yes.

Senator SARBANES. I'm a little concerned. We hear from them individually, but I don't sense they are getting organized together to help make the case as to how important these programs are for their activities and how well the whole effort is proceeding. And it seems to me that they are going to wake up one of these mornings and discover that the underpinning and the support that was coming has been lost. Part of this effort has also been to enlist the State Department, and I gather you are getting some fairly good cooperation out of the Ambassador's efforts.

Secretary BROWN. Senator Sarbanes, on that last point, I really need to compliment the State Department for a real sea change in attitude. Our Ambassadors around the world now see themselves as advocates for America's commercial interest. That has not always been the case. Certainly in recent years, working much more closely with our commercial officers and focusing on their responsibility to help assure economic growth here at home. So there has been a real change there.

As far as the business community is concerned, Senator Sarbanes, I think the reason there was so little heard at first is that when some of these proposals were made, they were seen to be so ludicrous and so ridiculous, that nobody believed that anyone could be serious about them. There was a tendency to kind of sit on their hands. I think there's been a lot more activity in recent months and weeks. I took with me to a hearing that I had recently in the Senate a box with 2,000 letters from business people from around the country.

The organizational interests are more difficult to harness. You take the Chamber of Commerce, the National Association of Manufacturers, those kinds of organizations. Although the National Association of Manufacturers has been supportive, they tend to focus on the things that affect their constituency.

In some cases, it's the export administration issues. In some cases, it's the trade issues. In some cases, it's the technology issues. We haven't been able to muster the kind of concerted effort on their part that I would like about the entire group of functions that we perform. But I think we have seen in recent months a move in that direction. The President's Export Council, headed by Mike Armstrong of Hughes, has been very active in that regard. Our DEC's around the country, with business leaders from local communities, have been very active in that regard. The Business Council, which is a private sector organization of CEO's, I think has made very supportive statements about the work of the Commerce Department. So I think that has changed. I think, initially, that was a very valid concern. But I believe that that has changed significantly.

Senator SARBANES. I'm relieved to hear it because I think it's very important.

One final question to Administrator Lader.

I saw a study once that made the point that small businesses in the European countries are far more export-oriented in their thinking than middle- and small-sized businesses in this country.

We know that there are certain large businesses in this country that have very active export efforts. They have a whole kind of dimension within their company for that purpose only.

One of the things we are trying to do is to get medium- and small-sizes businesses interested. Of course, the Export Assistance Centers are designed to help that, and the Small Business Administration. What success are you having, do you think, in sort of penetrating into that business community and alerting them to export opportunities?

Mr. LADER. Your observation is correct. The small business community in this country has not been as export-oriented as Europe, for example.

There is some considerable growth and to help stimulate that growth further, as an illustration, this week, at the annual convention of the Small Business Development Centers, some 600 representatives of the 900 centers around the country, I introduced an SBA program, a competition amongst them, to develop the most innovative ways to counsel, to assist and to encourage small businesses in their local communities to go global, to look to export opportunities.

I think in this Administration, between SBA on line, the U.S. business advisor on line, the work of the U.S. Export Assistance Centers, these will be of considerable assistance.

But you're exactly right. Even though, as I mentioned to the Chair earlier, we have trebled the number of SBA export working capital loans this past year, it is still a relatively small percentage overall and we need to do a great deal more in that regard.

Secretary BROWN. Could I just add briefly, Senator. I should have paid special tribute to the Small Business Exporters Association, run by Marty Duggan. They have been very active in supporting the work of the Commerce Department. They have been at hearings. They have submitted letters. Frankly, I think that response from the small business community is the most important response.

Senator SARBANES. Did you want to add any small business points?

Mr. BRODY. Well, one. In talking about business community support and working with Government, you should never leave out the Coalition for Employment through Exports, which is headed by Peggy Houlihan, and does a superb job of bringing together business and Government.

Senator SARBANES. Actually, I think Labor also participates in this effort.

Secretary BROWN. They do.

Mr. BRODY. Yes.

Senator SARBANES. The coalition of employment through exports.

Mr. BRODY. Yes.

Senator SARBANES. So you have business, labor, and Government working together.

Thank you, Mr. Chairman.

Senator BOND. Senator, any further questions?

Senator SARBANES. No.

Senator BOND. Well, our witnesses have been with us throughout the morning hour and are prepared for lunch.

I thank all of our witnesses and the hearing is adjourned.

Secretary BROWN. Thank you, Mr. Chairman.

Mr. BRODY. Thank you, Mr. Chairman.

[Whereupon, at 12:12 p.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]



## PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

I welcome Commerce Secretary Ron Brown who is serving as Chairman of the Trade Promotion Coordinating Committee (TPCC), Export-Import Bank Chairman Ken Brody who is serving as Deputy Chairman of the TPCC, and Administrator Philip Lader of the Small Business Administration, a member of the TPCC.

Prior to this hearing, we met in closed session to hear a briefing by Secretary Brown on the Commerce Department's recent classified study of unfair and illegal trading practices by other nations. I have to tell you that I found this report profoundly disturbing. While we cannot go into substance of this report, I assure you that this Committee will give it very serious consideration.

Today the Administration is releasing the Third Annual Report of the TPCC which this Committee established as part of the Export Enhancement Act of 1992. The TPCC's mission, to coordinate the export promotion and financing activities of the Federal Government, was necessary and long overdue. In 1992, there were 19 Federal agencies administering almost 100 export promotion programs—with no overall strategy. We now have a concentrated effort.

The new report, *Meeting Foreign Competition*, focuses on the TPCC's current achievements, the Federal Government's advocacy efforts, efforts to assist small- and medium-sized exporters, and progress toward developing a unified trade promotion budget.

I want to praise our witnesses for their outstanding work within the TPCC over the past couple years. The U.S. has made dramatic progress in creating a unified trade promotion program. But, we must not stop there, because we have a long way to go before we achieve a level global playing field for U.S. companies.

To reach our ultimate goal of allowing U.S. companies to compete globally based on the quality of their product and their price, we must concentrate on two areas. First, we must provide U.S. companies the opportunity to gain access to the world's markets. Second, we need to insure that U.S. firms are not disadvantaged by foreign firms engaging in unfair and potentially illegal trade practices. This is a matter of great concern to the Committee. It is an outrage that foreign countries participate in these questionable activities. Over the last 8 years U.S. companies lost roughly 100 contracts, that were up for international bids, due to some type of foreign government pressure. These deals were worth an estimated \$25 billion and potentially 500,000 U.S. jobs.

I am concerned by these illegal and unfair trade practices. I plan to work with the Administration to assist them in any forum in order to provide U.S. firms with a equal opportunity to compete in the world market.

By focusing on two areas: First, providing U.S. firms with the tools they need to enter the global trade arena; and second, leveling the playing field by making all of the players play by the same rules, U.S. firms will be able to compete in a fair market.

I look forward to hearing the testimony from our witnesses.

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## PREPARED STATEMENT OF SENATOR BARBARA BOXER

Thank you Mr. Chairman. Good morning Secretary Brown, Chairman Brody, and Mr. Lader. I am pleased to welcome you here this morning to discuss the progress the Trade Promotion Coordinating Committee, TPCC, has made toward achieving its mandate.

The TPCC's mandate according to the Export Enhancement Act of 1992 is to coordinate the export promotion and financing activities of the Federal Government, and to develop a strategic plan which carries out that mandate.

The goals and objectives of the TPCC are particularly important to me since my home State of California is the Nation's leading exporter of merchandise. There are approximately 25,000 exporting firms in the State of California. In 1994 these California businesses produced approximately \$80 billion in sales and supported nearly 1 million jobs.

As we move forward into the twenty-first century and U.S. businesses are increasingly forced to compete in the global marketplace, it is vitally important that these businesses have the benefit of a coherent, comprehensive and coordinated *Federal* strategy for export promotion and export financing.

In that regard, I am interested to hear the specific progress which has been made since the TPCC presented its second annual report last year entitled *National Export Strategy*. I am also interested to hear what steps some of the individual member agencies of the TPCC have undertaken to promote exports and facilitate export financing.

It is my hope that today's report, the TPCC's third, will begin to detail, concretely, the efforts and activities which are being undertaken to carry out or meet the Program's goals. The global future is now, and the Federal Government's export advocacy efforts will play an integral role in determining the success of our businesses in the global environment in which they now compete.

Finally, I would like to thank Secretary Brown for his leadership in this area. Under his direction, the Department of Commerce has done a tremendous job in helping to develop a national export strategy, and in helping many California and other U.S. firms effectively and successfully compete for foreign contracts. I look forward to hearing the remarks of all of the witnesses and discussing the TPCC's export promotion plan.

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### PREPARED STATEMENT OF SENATOR CAROL MOSELEY-BRAUN

Mr. Chairman, I am delighted to participate in today's hearing. I am anxious to receive the Third Annual Report of the Trade Promotion Coordinating Committee and to hear about the Federal Government's export advocacy strategy and its trade finance and trade promotion efforts on behalf of small- and medium-sized exporters. For too long the focus of the Federal Government's export efforts have been on large, multinational businesses. Now the medium and small business community is beginning to receive the same attention. As you know Mr. Chairman, the small- and medium-sized community is the engine that runs the American economy, employing nearly three-quarters of our work force. I am one of those who believe that the small- and medium-sized business sector of our economy has the highest potential for growth and, therefore, anything we can do to assist this untapped sector of our economy to enter and compete in the global marketplace will be a benefit to our entire economy.

I do have one concern which I would like to raise with our distinguished witnesses. Illinois is the second largest agricultural exporter and the third largest industrial exporter in the country. All too often, however, it appears as if our Government does not do enough to help our businesses in the areas of trade finance and trade promotion. Our trade competitors have no such compunction and engage in extensive trade promotion and financial support activities.

I would like to take this opportunity to applaud the leadership of Secretary Brown as the Chairman of the Trade Promotion Coordinating Committee and his untiring advocacy on behalf of the American business community. I would also like to take this opportunity to voice my strong support for the Department of Commerce, and I believe that it would be a serious mistake to disable or eliminate the Department. Its work on behalf of Illinois businesses, particularly though the Export Business Center, has been significant and is much appreciated. It is difficult to believe that some quarters of our society are seriously considering the dismantling of the Commerce Department when American business is facing its most serious challenge from foreign competition.

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### PREPARED STATEMENT OF RONALD H. BROWN

SECRETARY, U.S. DEPARTMENT OF COMMERCE, WASHINGTON, DC

OCTOBER 12, 1995

#### Introduction

Mr. Chairman and distinguished Members of the Senate Banking, Housing, and Urban Affairs Committee. It is my pleasure to appear before you to present to the Congress the Third Annual Report of the Trade Promotion Coordinating Committee. This Report provides continuing evidence of the Congress' wisdom, as expressed in the Export Enhancement Act of 1992, in establishing an effective mechanism for all U.S. Government agencies to work together to promote American exports. We have met Congress' charge—developing a National Export Strategy that puts the Federal Government to work as a relentless, aggressive, pragmatic advocate for the private sector as it pursues commercial opportunities overseas.

At the outset, I would like to express my sincere appreciation for the leadership of Ken Brody at the Export-Import Bank who serves admirably as Vice-Chair of the TPCC, Ruth Harkin of the Overseas Private Investment Corporation, Phil Lader at the Small Business Administration and Joe Grandmaison of the Trade and Development Agency, who, through their genuine commitment to the TPCC interagency

process, have been instrumental to the success of our National Export strategy over the past year.

Before I begin with my report on the TPCC report, let me briefly mention the upcoming 1995 Competitiveness Report which we will be delivering to you and your colleagues shortly. In our 1995 report, Mr. Chairman, we will emphasize the success of the Department's trade and technology programs as part of the Administration's overall competitiveness strategy. The Commerce Department has been particularly active in making the most of the synergy between trade and technology, actively advocating economic policies that support growth, innovation, and job creation.

Today, Mr. Chairman, I will focus my remarks on the trade aspects of the Department's work, in particular our export advocacy strategy. Last year when I delivered our Second Annual TPCC Report to Congress, we set an ambitious objective to expand exports to over \$1.2 trillion by the year 2000. Today, I can report that we are well on the road to achieving that goal. Through the first six months of 1995, exports of goods and services are running at a \$765 billion annual rate, and are up in our key markets, including Japan (20 percent), China (19 percent), the East Asian Newly Industrialized Countries (30 percent), Canada (16 percent), South and Central America (22 percent) and the European Union (14 percent).

At this rate, we estimate that by the year 2000, fully 16 million American jobs will be supported by exports. Our strong export performance has resulted in more than 2 million new export-related jobs since January 1993. In 1994, exports accounted for a third of the growth in American GDP and supported a record 11 million jobs. And during the first half of 1995, exports expanded a record 13 percent. The message is clear: in today's global economy, exports equal jobs. While much has been reported about our success in helping large American companies with major international infrastructure projects, consider the following small company success stories:

- For **Aquatics Unlimited, Inc.**, of California, our assistance in Indonesia helped them secure a \$10 million deal to export dredging equipment over 5 years. This agreement, facilitated by our commercial and embassy staff overseas, will double Aquatic's employment from 20 to 40 people.
- Counseling, market information, and a little encouragement from our Commercial Service helped Hawaii-based **Island Princess Co.**, a producer and distributor of chocolate products, become a successful exporter. The company reports that today, fully 80 to 85 percent of its production is exported which has resulted in the firms growing from 5 to 20 people.

As Chairman of the Interagency Trade Promotion Coordinating Committee, my job has been to ensure that the Federal Government is using its resources in a coordinated and strategic fashion to help U.S. firms like these succeed in a brutally competitive global market. We believe strongly that American economic growth and prosperity hinges on the strength of our commercial relationships abroad. Through our National Export Strategy, we have sought to give U.S. businesses, particularly small- and medium-sized firms, the tools they need to compete internationally.

The NES is a cornerstone of the Clinton Administration's overall economic plan. It serves as our national economic blueprint, linking our export promotion efforts to our most important trade policy initiatives. We are working hard to help U.S. firms be the first to benefit from a newly strengthened World Trade Organization, a fully functional NAFTA and recent market-opening agreements with Japan. The NES brings home the benefits of these agreements and is successful because it is a truly collaborative effort. Our team approach has harnessed the energy and expertise of our Nation's key international trade promotion and finance agencies. The National Export Strategy is now a hallmark of strategic planning, focused coordination, and practical flexibility which allows each agency to do what it does best.

Simply put, I can report to you today that the National Export Strategy is not only working—it is thriving. But while the synergies we have developed have been extremely successful, we know we cannot rest on our laurels. I would like to share with you today the progress we have made implementing the National Export Strategy over the last year and the new strategies we are developing to help ensure that American firms can continue to compete and win overseas to create better jobs here at home. In addition, I want to describe, the key rationale behind our efforts to help America's firms and workers and our findings that foreign competition has never been so fierce.

### Our Efforts Over The Past Year

As Chairman of the TPCC, I have witnessed first-hand how tough it can be for a company, especially a small- or medium-sized firm, to break into a market overseas. The TPCC's mission is to strategically target our resources to those companies'



and markets where our programs are most effective. Let me tell you what our game plan has been:

- We have *expanded our Big Emerging Markets strategy in a number of ways*. These ten markets comprise half of the world's population, and by 2010, they will be a bigger market than Japan and the European Union combined, accounting for 50 percent of the GDP of the entire industrialized world. These markets will take more than a quarter of the world's imports in the next 15 years, and are where the potential for U.S. sales is greatest. Over the past year, we have expanded the BEM's strategy to include the entire ASEAN growth region, including Vietnam. We have developed country-specific plans for export promotion to each BEM. In a number of these markets, we have established business development committees as well as freestanding Commercial Centers to create an "office away from home" for American firms. And we have scheduled literally hundreds of trade events and trade missions.
- We have *strengthened the coordinated efforts of our Advocacy Center at Commerce, and our interagency Advocacy Network*—demonstrated by the more than \$57 billion in foreign business deals U.S. companies have won since November 1993. We estimate these business deals represent a U.S. export content of \$26 billion, supporting over 370,000 U.S. jobs.
- We have continued our efforts to bring together representatives of Ex-Im Bank, OPIC, the Trade and Development Agency, SBA, and Treasury to develop and implement an *aggressive trade finance strategy* to help U.S. firms compete and win overseas. As a result:
  - We are now able to develop multi-agency finance packages, from TDA-funded feasibility studies to OPIC insurance, aimed at helping U.S. firms win specific contracts.
  - Since January 1994, the Ex-Im Bank has agreed to match 33 instances where other countries have promised low-cost financing to obtain contracts.
  - Over the past year, we have launched new programs in the areas of untied aid and project finance. Through efforts such as our new untied aid reporting system and Ex-Im Bank's new Project Finance Division, we will help to ensure that U.S. firms are rapidly aware of—and can compete for—large infrastructure projects worldwide.

Ken Brody will discuss these and other steps we have taken on the trade finance front in greater detail.

We have also *removed unnecessary and outdated Government-imposed obstacles to U.S. exports*. Consistent with our national security and nonproliferation responsibilities, we have significantly liberalized controls on chemicals, software, computers and telecommunications exports and streamlined the export control process. For example, just last week the Administration announced a further liberalization of high performance computers. This action will enhance U.S. national security and preserve the U.S. computer industrial base, by ensuring controls on computer exports are effective and do not unnecessarily impede legitimate computer exports. In addition, we expect imminent resolution of the outstanding commodity jurisdiction issues of commercial satellites and developmental aircraft. We will soon implement an Executive Order that will reduce the maximum processing time for individual export licenses by 25 percent and institute a "default to decision" process for timely, predictable escalation of disputed cases. And we will simplify export regulatory requirements in the first comprehensive rewrite of the Export Administration Regulations in over 40 years, which is to be completed by the end of this year.

- We have *improved access to trade information*, increasing electronic access to sources that include the National Trade Data Bank and the Internet. And embassies in 120 countries now annually produce country commercial guides in local markets.
- And we have reached out to small- and mid-sized companies, opening eight more U.S. *Export Assistance Centers* across the country over the past year. These centrally-located offices combine the resources of Commerce, SBA, Ex-Im Bank, and local partners to offer a one-stop shop for companies that want to enter or expand export markets. The Centers provide an integrated service delivery network for small- and medium-sized exporters, coupling counseling and export information, with trade finance, trade missions, market research, advocacy, statistical data, industry trends, and other commercial information.

These USEAC's are producing impressive results: For example, the Chicago office reported a 56 percent increase in assisting "new to market" companies. A 60 percent increase in export actions was reported from the USEAC in Baltimore. We plan to open three additional centers in Boston, New Orleans, and Detroit later this year.



- In addition, we have reinvented our *Commercial Service*—with 73 domestic and 134 overseas posts in 69 countries—to increase its accessibility to small- and medium-sized businesses. This year, both domestic and foreign staffs are being combined into a unified service to ensure that staff have both hands-on counseling as well as overseas experience to better serve our business clientele.
- Finally, we have made progress in developing a truly *unified budget* for trade promotion activities. We have refined and expanded our framework for measuring the performance and effectiveness of our programs, and are working on linking these measures to the funding process. Over the next year we will finalize our performance measurement system and refine TPCC priorities in line with those measures and other agency objectives to best meet the needs of U.S. exporters.

All of these changes are translating into export sales and jobs all across America. For example:

- The Commercial Service's Louisville office recently assisted a small Kentucky-based manufacturer of coal auguring systems by providing export counseling, in-depth market research on Indonesia's coal equipment market, Indonesian business contacts, and regulatory information on agency appointments. This assistance was instrumental in helping **Salem Tool** sell \$2.2 million of its equipment to a mining operation in Indonesia. The company is expecting this sale to open doors to the Australian market, where the parent company of its new Indonesian customer is located and to hire a number of new employees.
- In Pennsylvania, **Bricmont Contractors Inc.**, a manufacturer of industrial furnaces, has broken into new markets with the help of Ex-Im Bank and TDA. Bricmont used Ex-Im Bank financing and a TDA training grant to win a \$10 million bid in Mexico and is working with these agencies to lay the ground work for future sales in the New Independent States, China and Turkey. Bricmont's management has told us that they would be half their size if they had not set their sights on foreign markets.

### Strategies for the Future

In addition to building on all these new approaches to trade promotion, we will, in the coming year, pay particular attention to two areas we think are critical to ensuring that the U.S. economy remains globally competitive. First, we will sharpen and deepen our advocacy efforts to enable those companies already competing overseas to meet their competition head-on. Second, we will work to ensure small- and medium-sized companies have a better chance to compete in the global marketplace. This strategy will both strengthen American competitiveness abroad and grow our economy at home—by giving U.S. companies their best shot in the breakneck battles for global marketshare and by fulfilling the “export potential” of our smaller firms.

### Advocacy: Supporting U.S. Jobs in Global Competition

Meeting the challenges posed by our foreign competition is at the core of our national economic security and thus at the core of our National Export Strategy. As I mentioned previously, our advocacy efforts over the past year have resulted in helping U.S. firms secure over \$57 billion in deals, supporting over 370,000 American jobs. Our Advocacy Network is now fully operational, led by our Advocacy Center which tirelessly tracks large, pending, overseas contracts for American firms.

The opportunities and challenges for U.S. companies in the global marketplace have never been greater. But as we look ahead, it is evident that the race to win key contracts in the markets of tomorrow will only escalate. *In the next decade, over 150 large-scale capital projects worth nearly \$1 trillion are likely to be undertaken throughout the world*, spawning intense competition among international firms—and their governments—to win a portion of these lucrative deals. The emerging market nations alone have scheduled more than \$220 billion worth of megaprojects for completion in the next 10 years, including projects worth \$76 billion in Taiwan, \$36 billion in China, and \$28 billion in South Korea.

For example, China is just now establishing a national highway system. Only, 60,000 out of a billion Chinese own private automobiles, but that number is expected to explode in the coming years. India is looking to upgrade a telecommunications infrastructure that tries to serve 900 million people with fewer phone lines than the State of Illinois. South Africa must provide housing, roads, sewage, and water to the three-quarters of its people who have been disenfranchised for generations. It is critical that U.S. firms get into these markets early—if not first—so they can gain the critical experience of being on the ground floor, understanding the foreign market and building the relationships that will allow them to win other projects in the markets of tomorrow.

American firms stand ready to serve these new demands. But in many foreign markets, governments still control key industries and make decisions on billions of

dollars in infrastructure projects. So it is imperative that the U.S. Government advocate for its firms effectively. Boeing and McDonnell Douglas won a huge Saudi airplane contract because President Clinton's relationship with King Fahd was such that he could pick up the phone, call him, and tell him why American firms would do the best job. Secretary O'Leary and I have led 11 business development missions to 15 nations, resulting in tens of billions of dollars in signed agreements. Secretary Pena's advocacy efforts in Taiwan on behalf of U.S. aircraft manufacturers in December of last year facilitated sales of ten Boeing 777 aircraft to China Airlines and Evergreen Airlines. And this help is not just for big business. As our Report clearly shows, helping big firms like GE, Boeing, or McDonnell Douglas results in contracts—and jobs—for literally thousands of small suppliers across the country.

In short, our advocacy efforts have been extremely successful over the past 2 years—meeting and beating the competition in over 120 contracts in this year alone. Our report details steps we will take to build on this strategy in the coming year by fortifying our advocacy efforts, including enhancing monitoring of our competitors' practices, strengthening TPCC agency training and working harder in international organizations to eliminate unfair advocacy practices.

### Helping Small- and Medium-Sized Businesses

A second key area of focus over the coming year is helping small- and medium-sized firms break into markets overseas. This is vital to the health of our economy. These businesses employ more than half of the, U.S. workforce, are responsible for about half of our Gross Domestic Product, and generate more than half of all sales in the United States. Most importantly, small firms were responsible for almost two-thirds of the 3.3 million new jobs created since 1994. They are clearly the engine that will drive the next generation of U.S. jobs.

Yet these firms are under represented in the export picture. While small- and mid-sized businesses were responsible for more than one-third of total merchandise exports in 1994—\$150 billion—these firms could export more. Estimates of this unmet potential vary, but if, for example, the number of small business manufacturers that currently export increased just 5 percent above recent levels, small business exports could increase by \$35 billion. The conclusion is obvious: America's economic growth depends on exports, and the ability to create those exports—and the jobs that they will grow—will depend heavily on small business.

To help boost exports by small businesses, the TPCC agencies have over the last year focused on providing them with up-to-date trade information and expertise. I have already mentioned the Export Assistance Center network which provides critical on-the-ground support with expert information and counseling. We also provide a free central point of contact for exporters around the country—the Trade Information Center. Through its toll-free number, the Center acts as a point of contact for U.S. businesses seeking information on all Federal trade promotion and finance programs. The Center will provide assistance to approximately 67,000 business callers this year alone—an average of 1,300 calls a week. Of these callers, almost 90 percent are small businesses seeking assistance.

The Commerce Department has also established a number of regional “one-stop” information centers to help open the door for small businesses interested in exporting to regions like the Newly Independent States, Eastern Europe, Asia Pacific, and Japan. These centers provide current information on best prospects for trade and investment, upcoming promotional events, and potential trade barriers—information that many small businesses would not be able to afford to purchase on their own.

The trade finance agencies—SBA, Ex-Im Bank, OPIC and TDA—have implemented a number of other important initiatives to help small businesses which we detail in the Report. Ken Brody and Phil Lader will elaborate on a number of these efforts in their testimonies. Again, we can document success from this assistance across the country:

- *C.S. Johnson Co.* of Illinois, a manufacturer of concrete mixing and batching equipment, credits participation in SBA's Export Working Capital Guarantee Program with increasing its sales in Asia—and its plans to hire 25 more employees as a result; and
- *F.C. Shaffer and Associates, Inc.*, of Louisiana, recently won an \$83 million contract in Ethiopia. Working closely with OPIC, TDA, embassy staff and the Commercial Service, the company reports that the project will support 50 engineering and construction jobs and is expected to generate over \$50 million in initial procurement from more than 40 U.S. suppliers.

But we know from our ongoing dialogue with the small business community that we need to do more to help small firms obtain critical trade finance. Historically, the most significant obstacle to small business exporters has been the lack of export

financing. Many banks think smaller trade loans are too risky and time-consuming and that—particularly for transactions under \$1 million—they often cannot make a profit. We have also found that small businesses in other countries have greater access to capital because foreign banks place more emphasis on the strength of the deal than they do the balance sheet of the small firm.

To help alleviate these problems and increase access to trade finance for smaller firms, we have developed 15 specific recommendations that will be the focus of our efforts this year. Our recommendations fall into five categories: Better access to financing, bank profitability, effective outreach, access to information, and decreasing obstacles—specifically Government-imposed regulations that may be contributing to the problems small businesses face.

For example, over the next year we will expand both the awareness and the coverage of our trade finance program—both public and private—to ensure that qualified small business exporters have the knowledge and opportunity to obtain trade financing. We will extend SBA and Ex-Im Bank services, increase lender eligibility for key programs, and strengthen our training. We also plan to review U.S. Government banking rules and regulations to assess their impact on the small business exporter. Our goal is to open new sources of trade finance for small businesses while at the same time improving the access and usability of existing programs.

### **The Rationale Behind Our Efforts: Heightened Foreign Competition**

Let me close by putting our overall strategy in the proper context: Our competitors clearly recognize the importance of high-level Government involvement in these competitions and are spending more even as we cut back, becoming more aggressive even as we debate slashing our resources.

For example, Japanese financial assistance to exporters in 1993 totalled \$146 billion dollars while U.S. financial export assistance only reached \$9 billion. Moreover, U.S. Government funding for export promotion programs is the lowest of the G-7 countries. While we spent barely 2 percent per every \$1,000 of GDP on export promotion programs in 1992, the UK devoted more than 25 percent per \$1,000 of GDP to its export promotion programs that year. Moreover, our foreign competitors are becoming increasingly aggressive in helping their firms secure major projects in foreign markets.

While we have always been aware of other governments' involvement in their companies' commercial activities, this year it is evident that their level of commitment to securing contracts for their firms is higher than ever before. The Europeans, the Japanese, and even the emerging markets themselves are investing more and more of their leaderships' energy and governments' resources to do battle with U.S. companies over critical major projects. High-level visits, lobbying, financing, and promises of technology transfer and aid funds are among their tactics. If imitation is the sincerest form of flattery, many of our competitors are putting in place institutions similar to the TPCC, coordinating their government-wide efforts at the highest levels. For example:

- *The United Kingdom* recently increased its export promotion budget by 68 million pounds, created the Overseas Trade Service to coordinate export promotion efforts and expanded the provision of favorable financing through its Export Credit Guarantee Department. British press reports state that a fifth of British diplomats abroad are engaged full-time in commercial work.
- *The Germans* are emulating the U.S. approach to export promotion, recently inaugurating an office for the coordination of Germany's export promotion efforts.
- *The French* have created a Committee for Competition and Economic Security—chaired by the Prime Minister—to develop an economic strategy to increase the commercial presence of French firms in overseas market's.
- *The Japanese* have been extremely successful in securing government contracts, in part due to their proclivity to use aid as leverage. The combined funding provided by the Japanese Export-Import Bank and the Overseas Economic Cooperation Fund is roughly equal to World Bank lending around the globe.

These Government-wide strategies have made a difference in the competitive environment our companies face. Overall, we estimate that in about 200 separate overseas competitions over the past 8 years, U.S. firms have lost approximately one-half of these contracts due in part to political and economic pressure brought to bear on other governments. *This foreign government involvement in major project decisions resulted in a minimum of \$25 billion in lost contracts for U.S. companies during this period.* In fact, we estimate the losses to be much higher, given that this is only a small fraction of the total projects out to bid during this period, and does not include follow-on contracts.



## Conclusion

I hope I have been able to impress upon you today that maintaining our momentum under the National Export Strategy has never been more crucial to the future competitiveness of American business and the livelihood of American workers. Opportunities are unfolding for American companies, but we are not the only ones that recognize the significance of these opportunities. Unless, we are there to ensure our companies are able to meet the competition, our strength in the markets of tomorrow—and our future livelihood—will surely be at risk.

The last 3 years have clearly demonstrated that the National Export Strategy is working, and working well. As the President says in the opening letter of the Report, our accomplishments are a testament to what can be achieved when a number of Government agencies devote their resources in a coordinated fashion toward future growth and job creation. The most important task facing the United States as we look toward the next century is the maintenance and creation of high-wage jobs, and the National Export Strategy is one of the most cost-effective ways to accomplish our goal.

I would be happy to respond to any questions you have at this time.

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## PREPARED STATEMENT OF KENNETH D. BRODY

PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

OCTOBER 12, 1995

Mr. Chairman, Members of the Committee: Thank you for inviting me to appear before you today to discuss the Third Annual Report of the Trade Promotion Coordinating Committee (TPCC). As Secretary Brown, our TPCC Chairman has just told you and Administrator Lader will soon add, the TPCC interagency process is working. The Members of the Banking Committee are to be congratulated for their vision in providing the legislation to create this working group, which is putting the United States back into the forefront of international competitiveness.

As Vice-Chair of the TPCC, I can tell you we have taken this responsibility seriously. The National Export Strategy is vital to this Administration's efforts to improve the U.S. economic outlook as we approach the 21st century.

Studies show that exports enhance workers' pay, benefits, skills, and productivity. Exports enhance corporate innovation, stability, and endurance. Simply put, U.S. firms that export are more dynamic and profitable. Moreover, U.S. exports are driving our economic growth.

## Introduction

In the beginning of the TPCC process, we set out to create a foundation and a framework to produce fundamental change in the way the Federal Government works. This required a new philosophical approach by the 19 agencies represented in the TPCC. I believe we have accomplished this goal. The TPCC has a coordinated approach to trade advocacy, finance, and outreach, which is complementary not duplicative.

In 1996, to build upon previous years' accomplishments, the TPCC will attack specific obstacles to U.S. competitiveness—whether from foreign competitive practices or through insufficient access to financing at home.

This morning I want to mention a few of the initiatives undertaken by the Export-Import Bank of the U.S. (Ex-Im Bank) over the past year and those we plan to undertake in the coming year. These are part of the TPCC's coordinated effort to ensure that American firms are competing on a level playing field. Finally, I would like to illustrate for you the success of these efforts to date in the words of the small, medium, and large U.S. firms, which are benefiting from the TPCC's interagency cooperation.

## Small Business

Small business is an integral part of our National Export Strategy. Small business has enormous untapped potential to be an exporting powerhouse. When we appeared before this Committee last year, I talked about the changes Ex-Im Bank was implementing to be more responsive to the needs of small businesses. Ex-Im Bank's results are impressive. Over 70 percent of the transactions handled by the Bank in FY 1995 were for small businesses, which amounted to financing for \$2 billion in U.S. exports. Currently, small business accounts for 18 percent of the total dollar volume of Ex-Im Bank business.



The Bank's Export Working Capital Guarantee program, which provides a revolving line of credit to primarily small businesses, has resulted in a 71 percent increase in the amount of working capital authorizations from \$181 million in FY 1994 to \$309 million in FY 1995. The success of this effort is due, in large part, to Ex-Im Bank's delegated authority lending relationships with 53 banks in 22 States. The delegated authority lenders can approve up to \$2 million per borrower without case-by-case approval from Ex-Im Bank. Close to percent.

Small businesses also have benefited from the harmonization of the Ex-Im Bank and Small Business Administration working capital guarantee programs. The harmonization created one streamlined single-page application for financing, and offered similar terms with each agency handling different loan amounts. Unfortunately, only 10 months into the harmonization of this program, S.895, the Reauthorization of the Small Business 7(a) program, has altered the Ex-Im Bank/SBA relationship. I believe that the changes in S.895 will have a detrimental effect on the ability of our smallest exporters to obtain necessary working capital financing. At the direction of report language accompanying S.895, Ex-Im Bank and SBA will be submitting a report to the Congress, which examines the effect on small business of the changes mandated by the 7(a) Reauthorization.

Also, Ex-Im Bank increased its insurance coverage under our Small Business and Umbrella Export Credit Insurance policies. With our new enhanced coverage, the number of insureds increased by 26 percent and the number of shipments increased by 43 percent over the previous years. Ex-Im Bank issued more small business policies in 1995 than standard policies. As a result, small business insurance activity totalled \$1.4 billion in FY 1995.

One of the most difficult obstacles faced by small business is the lack of access to information. Ex-Im Bank now has instituted a toll-free number fielding 8,700 calls just the month of September. In addition, we are strengthening our City/State relationships, that allow Ex-Im Bank to train State and local government personnel in Ex-Im policies to offer more competitive and coordinated financing options to their local businesses. City/State representatives are often the first line of defense available to businesses involved in the exporting process. City/State relationships now exist with 34 locations and preliminary data indicate that \$186 million of U.S. exports were supported by City/State relationships in FY 1995.

In the next year, the TPCC will be looking to improve upon several aspects of its performance. A major focus of our work will be examining and implementing ways to increase export activity by small- and medium-sized businesses. Also, we will be looking to expand access to capital through non-traditional financing sources and export intermediaries.

As another source of financing, we are considering increasing the guarantee limit for our delegated authority lenders approving export working capital loans. We also will undertake to educate smaller banks to make them aware of the ability to utilize upstream correspondent banking relationships to finance their business customers overseas orders.

## Project Finance

Also last year, I talked about the increasing demand for project finance and the creation of Ex-Im Bank's new Project Finance Division. Ex-Im Bank approved a record \$2.1 billion in financing for FY 1995, supporting eight projects in countries such as the Philippines, Turkey, and Colombia. This compares to only one deal per year in the previous 3 years totalling \$150 million. Demand for this financing is soaring because of developing nations' need for infrastructure to support unprecedented economic growth for which they are unable to provide the bulk of the financing or are moving to privatize traditionally public sector activities.

The Paiton Power Plant in Indonesia is an excellent example of the cooperative approach to project financing undertaken between the Bank and the Overseas Private Investment Corporation (OPIC) and the other TPCC agencies. Ex-Im Bank is providing financing that will support over \$500 million in U.S. exports, and OPIC is providing political risk insurance for one of the largest independent power projects ever built in a developing country. OPIC provided political risk insurance. The Paiton Power Project was truly a TPCC team effort encompassing personnel from the U.S. embassy in Jakarta, Energy Department expertise and negotiating at the highest levels of our Government through Treasury Secretary Rubin and Commerce Secretary Ron Brown.

Additionally, Ex-Im Bank held conferences on project finance in Washington, DC, Hong Kong, and Buenos Aires. These conferences were attended by over 2,000 bankers, businessmen, and government officials. Ex-Im Bank also hosted a reverse trade mission, bringing in a high-ranking Chinese delegation to discuss ways to implement project finance in China.

As of today, Ex-Im Bank is reviewing 16 additional projects totaling \$3.5 billion, which are in the preliminary stages of final approval.

### **Tied Aid**

Although the Ex-Im Bank's Tied Aid authority lapsed on September 30, and we are currently awaiting legislative action, Ex-Im Bank has previously issued letters indicating a "willingness to match" financing to U.S. firms in 33 instances where a foreign government was prepared to offer concessionary financing, which would result in the contract going to the foreign competitor. These contracts amount to \$2 billion worth of U.S. exports.

One of these firms, the Ellicott Machine Corporation, a small business based in Baltimore, was issued a \$22 million direct loan from the Tied Aid Capital Projects Fund when threatened with the loss of a contract by the foreign competition. In several deals, the threat of a U.S. action led to a foreign government's decision to not follow through with an offer of tied aid financing. In other cases, the U.S. willingness to match resulted in a series of protracted negotiations in which tied aid was eventually rescinded.

The U.S. continues to demonstrate that it will be aggressive in its approach to combat the use of trade distorting finance practices.

### **Advocacy and Outreach**

Permeating all of the TPCC efforts are its advocacy and outreach work, which is a key component of U.S. companies' ability to compete successfully in overseas markets.

The Commerce Department's Advocacy Network has established an interagency process for information sharing on major projects. Ex-Im Bank, OPIC, the Trade and Development Agency (TDA), and Treasury are working together to identify projects in the early stages of bidding and tailor competitive financing packages aimed at helping U.S. firms win international contracts.

The Big Emerging Market Strategy is providing focused delivery of export promotion services to U.S. firms in the ten most growth-oriented foreign markets. As part of this strategy, Ex-Im Bank has placed a loan officer on a short-term basis in the commercial offices of our embassies in Argentina, Brazil, and China.

The positive effects of the TPCC advocacy strategy are evident when U.S. delegations travel abroad. Ex-Im Bank representatives have participated in trade missions with many cabinet members. These joint efforts are directly related to the ground-work laid by the TPCC, and are absolutely essential to effective marketing on behalf of U.S. companies.

A further example of our interagency coordination is the comprehensive financing support provided by the TDA and Ex-Im Bank. TDA and Ex-Im Bank have worked closely for years in providing financial support to U.S. engineering design and consulting companies along with U.S. manufacturers from the early project development stage through to project completion. TDA's support to U.S. engineering and design companies often can make the difference between the U.S. manufacturers obtaining follow-on sales for projects of all sizes, particularly when faced with foreign governments providing feasibility study support at low or no cost. Together, TDA and Ex-Im Bank have begun to track the degree of synergy that exists between the two agencies. In particular, through a routine exchange of data between TDA and Ex-Im Bank, not only can we now identify those projects which have historically benefited from our joint support, more importantly, we now have an early warning system to alert the other of the potential need for future transactions.

Given the success of this exchange of information, TDA has now embarked on establishing a similar system with OPIC. The value to the U.S. exporters of this system is that it now allows the U.S. Government to provide financing support, often necessary to counter intense foreign competition, at every stage of a project, but especially at the feasibility study stage.

A major emphasis of the TPCC is outreach. The USEAC's, eight of which are now open around the country, play a vital part in the network of services available to the U.S. exporter. These "one-stop shops" are the backbone of the Federal Government's effort to bring export promotion to the mainstream of American business. At the USEAC's, small- and medium-sized firms receive expertise focused directly on their needs for information on markets and creative solutions to financing. Ex-Im Bank's City/State partners co-locate with the staff of SBA and the Department of Commerce to provide an integrated export promotion package combining local, State, and Federal input.

As we enter the 21st century, the trade battles that matter most will be in the emerging markets. America's success in competing for market share may well determine our economic prosperity in the future. We face formidable competition in the

years ahead. Foreign governments are forcefully advocating their exports in market after market. Over the next several months we will be evaluating the information gathering techniques we are currently utilizing to ascertain foreign competitive practices, and devising better methods to analyze and disseminate this data.

Advocacy efforts require long-term commitments. Therefore, the TPCC will be stepping up its efforts to focus on the most competitive sectors of the developing markets—roads, ports, airports, telecommunications, power generation, and public works—which expect unprecedented growth in the coming decade. TPCC agencies will be supporting one another more closely than ever during negotiations and trade missions.

Additionally, we can improve our advocacy ability by strengthening the training and comprehensive knowledge of our export promotion personnel. We can become more effective marketers for U.S. companies through our foreign based commercial offices and our USEAC regional personnel by improving methods sharing of resources and information.

Finally, we will continue to work through multilateral fora to combat unfair international competition and reduce trade distorting practices.

### **Examples**

The proof of the TPCC's success is characterized best in the stories of the small, medium, and large U.S. businesses that have been able to solidly position themselves against their toughest foreign competitors with the coordinated assistance of the TPCC agencies.

Leon Kulasa of Bricmont Contractors, Inc., a small business that manufactures industrial furnaces has relied on the TPCC agencies to investigate potential unfair trade practices, obtain new market information, utilize a training grant and financing to win contracts in Korea and India and lay the groundwork for future sales in China and Turkey.

Lamb-Grays Harbor Co. went to their state development agency in Washington to let them know of an urgent contract situation where a foreign competitor was working with its government to win support for a \$6 million contract for machinery in Indonesia. Through the State of Washington's U.S. Export Assistance Center staff, the exporter was able to receive a letter of interest and marketing assistance within 3 days, which restored its competitive position in the process. Lamb-Grays went on to win the contract. Without these integrated government avenues of assistance, Lamb Grays was certain they would be excluded from these export opportunities.

### **Summary**

When working with this many agencies and this many issues there is always room for improvement. We know that foreign competition is increasing and that we must do even more to assist U.S. businesses and to preserve and create U.S. jobs. It is in the national interest for this Administration to focus strongly on the international competitiveness of our export promotion efforts. Toward this end, I believe that the TPCC is working. The Federal Government is giving U.S. firms the tools they need to succeed in the international marketplace as foreign competition becomes more intense. With the TPCC framework in place, the Federal Government has the ability to provide the focused delivery of its export promotion services. At the same time, this interagency process allows each member to be flexible and responsive to market demands.

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## **PREPARED STATEMENT OF PHILIP LADER**

ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

OCTOBER 12, 1995

### **Introduction**

Mr. Chairman and Members of the Committee, thank you for inviting me to testify on the Small Business Administration's (SBA) role in the Trade Promotion Coordinating Committee (TPCC) and, in particular, the progress SBA has made in strengthening its export finance program.

Over the last 6 years, exports of U.S. goods and services have accounted for 70 percent of the growth our economy. One of most dynamic sources of this growth has been the small business community. Today, more than 99 percent of all businesses in the United States are small firms, and they employ more than half of the U.S. workforce. These small businesses produced an estimated 62 percent of the 3.3 mil-



lion jobs created in 1994 and generated a 150 percent increase in the volume of merchandise exports—\$150 billion—from 1987–1994. Clearly, small business is the engine that is driving our economy and the next generation of U.S. jobs.

Because the Clinton Administration recognizes the critical role small business plays in the health of the U.S. economy, this Administration has worked hard to provide small businesses with the tools they need to succeed in the international marketplace. Since 1992, the National Export Strategy has been the vehicle for delivering these tools to the U.S. small business community. Under the dynamic leadership of Department of Commerce Secretary Ron Brown and Ex-Im Bank President and Chairman Ken Brody, the TPCC has made dramatic progress toward a truly integrated trade promotion effort and getting the Federal Government's export promotion house in order. SBA is proud of the important role it has played in the TPCC and the National Export strategy, especially in providing small business exporters with access to critically needed capital.

This year's National Export strategy report focuses on a number of important areas, including progress toward a more coordinated approach for assisting small- and medium-sized exporters. Throughout the year, we learned more about the needs of small- and medium-sized businesses through a TPCC steering committee I have co-chaired with Commerce Under Secretary Jeffrey Garten. In June, that committee held a trade finance workshop where we met with a cross-section of banking groups from across the country to better understand the major obstacles to trade financing for small businesses. Later that month, we participated in the White House Conference on Small Business where we heard—loud and clear—that the TPCC must continue to make small business a priority in 1996. We are working hard to implement the Conference's 60 final recommendations, including the request to Congress and the President to authorize SBA and the Export-Import Bank "to sponsor revitalized funding programs designed to foster the financing of international trade, including the new Export Working Capital Program."

Launched as a pilot in October 1994, the objective of the EWCP is simple—to increase small businesses' access to capital by helping those who are capable of exporting but who might not qualify for conventional balance sheet financing. Modeled after Ex-Im Bank and the State of California's programs, the EWCP provides transaction-based financing. Rather than focus on the exporter's balance sheet—as the case with a regular 7(a) business loan—the credit decision for an EWCP loan is based primarily on the strength of each transaction. By focusing on an exporter's performance capability and the structure of each transaction, SBA now can provide a critical boost to a segment of the small business community that, all too often, couldn't get a bank to listen when the discussion came to export finance.

The new Export Working Capital Program is off to a great start. Since the program was introduced last October, SBA has guaranteed over 200 EWCP loans and has outstanding 35 "preliminary commitments" to exporters totaling over \$90 million. This is over three times what we had done in any previous year under the old Export Revolving Line of Credit program. SBA also has over 150 banks participating in the program—a record number for the Agency. Let me give you just one example of how a New York City-based firm took advantage of the EWCP to grow its export business. I.C.P. Industries buys low-cost commodity materials from U.S. manufacturers such as Borden, Dupont, and Dow, which it then exports to countries that make the materials into new items. I.C.P. was able to expand its business by buying more materials for export—with the help of an EWCP loan—while awaiting payment from overseas buyers. Today, I.C.P. is exporting to 10 countries, and 100 percent of the company's sales are due to exports.

A significant TPCC accomplishment in 1995 was "harmonization" of SBA and Ex-Im Bank's working capital programs, providing seamless service for small businesses as their export financing needs increase. The two agencies now offer a single, one-page application form that lets the exporter apply either to the SBA or Ex-Im Bank, depending on the loan amount requested. The SBA guarantees amounts up to \$750,000; Ex-Im Bank handles larger amounts. The agencies developed uniform lending policies, guides and instructions which simplify the process for our lending partners.

Apart from our harmonization efforts with Ex-Im Bank, we have streamlined EWCP loan processing and are providing speedy turnaround and faster service, usually 3 to 10 days, through a nationwide network of district offices and SBA trade finance specialists in each of the U.S. Export Assistance Centers (USEAC's). SBA is a fully committed partner with Commerce and Ex-Im Bank at the USEAC's. SBA offers technically focused financing services for export-ready firms (those that are exporting or have made a commitment to begin exporting). SBA also provides information and education for new-to-export businesses (those that have not considered exporting previously). In just 1 year, the EWCP has become a cornerstone of the



USEAC's, providing a critically needed trade finance component to complement the other resources available at the centers. SBA has relocated staff nationwide to support the USEAC's and the trade finance initiative.

In conjunction with the creation of the USEAC's, SBA trained approximately 260 of its employees from around the country, as well as 30 resource partners whose primary mission is providing export finance assistance. To further ensure the success of the program, SBA has given its field offices aggressive goals for the EWCP and will continue to press for results with other export-related loans under the 7(a) program.

SBA's strength in small business lending begins with the recognition that small businesses often require more support and assistance in obtaining financing than larger firms. Typically, a small business is unable to structure and present the type of information that a bank needs without some assistance. The EWCP pilot program's early experience indicates that SBA is financing deals today that previously would have fallen through the cracks. Through its nationwide network of partners, SBA offers complementary services that provide critical support to the agency's export finance efforts. Counseling, technical, and financial assistance for exporters is available through the SBA's extensive network of district offices, a network of 7,000 commercial lenders, intermediaries, and Certified Development Companies. SBA's resource partners, the Service Corps of Retired Executives (SCORE) and Small Business Development Centers (SBDC's), play a key role in delivering SBA's programs to the small business community. Today, there are over 13,000 SCORE members and a network of over 900 SBDC's. This year the SBA, in an effort to engage the SBDC network even further in our export promotion efforts, is creating an award which will be presented to the SBDC that has the most successful international trade program.

SBA has worked with State export finance offices since the EWCP was initiated to leverage resources in support of small business. SBA now has in place co-guarantee agreements with several States including California, Florida, and Kansas. The agency expects to have more in place by the end of this year.

SBA also has improved the way it delivers trade finance counseling and information services through an innovative pilot program known as the Export Trade Assistance Partnership, or "E-TAP." This program combines Federal resources with local trade service providers, SBDC's and SCORE counselors to educate and assist a small group of export-ready companies. In addition, SBA has launched SBAtlas, an export market research program that offers product and country information reports free of charge.

Clearly, the SBA has turned the corner over the past year in helping meet the critical export-related needs of small businesses, but it must do more to help America's entrepreneurs fulfill their export potential. Small businesses are facing fierce foreign competition in overseas markets and we must take even more steps to assure them greater access to financial resources. Some of the areas we plan to focus on over the next year include:

- *Continuing* efforts to harmonize the SBA/Ex-Im Bank programs, with a particular focus on simplifying the documentation and underwriting standards. Included will be standardization of the guarantee documentation and requirements;
- *Expanding* the number of lenders in the Export Working Capital Preferred Lenders' Program through an aggressive marketing campaign;
- *Examining* the feasibility of extending guaranties to nonbank lenders—an important and largely untapped source of transaction-based financing for small businesses; and
- *Increasing* the number of co-guaranty arrangements with State export financing and guaranty agencies—to allow States to leverage their funds more efficiently to reach an ever larger audience of small businesses;
- *Increasing* the involvement of our partners in helping us to deliver our export finance programs.

Despite the success of the pilot and the actions outlined above, one issue causes us with a great deal of concern. In FY 1995, both the SBA and Ex-Im Bank were able to provide a 90 percent guarantee to participating lenders under the EWCP. However, S.895, the "Small Business Lending Enhancement Act of 1995," reduces the guarantee to 75 or 80 percent. Let me be clear on this—SBA strongly supports most of the changes contained in S.895 and greatly appreciates Small Business Committee Chairman Bond's leadership in seeing the bill through. However, we believe that eliminating the 90 percent guarantee for SBA's EWCP loans will disrupt the seamless delivery of services and will work against not only small businesses and their efforts to export, but smaller banks as well. The agency already has heard from a number of lenders who have expressed serious reluctance at making loans

with the lower guaranty rate. Even more troubling, some lenders may not approve revolving loans when the loans come up for renewal, simply because of the increased risk. This could have a severe impact on the lives and livelihoods of the small businesses affected.

### **Conclusion**

Mr. Chairman, I believe that we are finally heading in the right direction and are well-positioned to better handle the trade finance needs of small business in an increasingly competitive global environment. The Small Business Administration will continue to play a vital role along with the other TPCC agencies in providing critically needed tools to better equip small business exporters. Thank you for allowing me to testify on behalf of the Small Business Administration and I look forward to working with you on these important efforts.

I would be happy to answer any questions you might have.





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